

Nature & Development of Entrepreneurship

Entrepreneur

Individual who takes risks and starts
something new

Characteristics of an Entrepreneur

- Initiative taking
- Organizing and reorganizing of social and economic mechanisms to turn resources and situations to practical account
- Acceptance of risk and failure

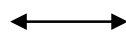
Entrepreneurship

It is the process of creating something different with value by devoting the necessary time and effort; assuming the accompanying financial, psychological, and social risks; and receiving the resulting rewards of monetary and personal satisfaction

Entrepreneurial Decision Making

Change from present lifestyle

Work environment disruption



Factors to Form new enterprise

Desirability of new venture formation

1. Cultural
2. Sub-cultural
3. Family
4. Teachers
5. Peers

Possibility of new venture formation

1. Government
2. Background
3. Marketing
4. Financing
5. Role models

Types of Start-ups

- Lifestyle firm
 - A small venture that supports the owner and does not grow
- Foundation company
 - R & D firm that usually does not go public
- High potential venture
 - This has a high growth potential and hence receives great investor interest
- Gazelles
 - Very high growth ventures

Role of Entrepreneurship in Economic Development

- Product evolution
- Iterative synthesis
 - Intersection of knowledge and social need that starts the product development process
- Ordinary innovations
- Technological innovations
- Breakthrough innovations

Government as an Innovator & Entrepreneur

- Government active in commercializing technology
- Technology transfer

Intrapreneurship

- Entrepreneurship within an existing organization is Intrapreneurship

Skills Required for Entrepreneurship

- Technical skills
- Business management skills
- Personal entrepreneurial skills

Technical skills

- Written & Oral communication
- Monitoring
- Technology & Technical business management
- Interpersonal
- Listening
- Ability to organize
- Network building
- Coaching
- Team player
- Ability to lead

Business management skills

- Planning and goal setting
- Decision making
- Human relations
- Marketing
- Finance & Accounting
- Controlling
- Negotiating
- Venture launch
- Managing growth

Personal entrepreneurial skills

- Inner control/ discipline
- Risk taker
- Innovative
- Change oriented
- Persistent
- Visionary leader
- Ability to manage change

Entrepreneurial & Intrapreneurial Mind

Entrepreneurial Process

- Identification and evaluation of opportunities
- Development of a business plan
- Determination of the required resources
- Management of the resulting enterprise

Identification and evaluation of opportunities

- Creation and length of opportunity
- Real and perceived value of opportunity
- Risk and returns of opportunity
- Opportunity verses personal skills and goals
- Competitive situation

Window of Opportunity

- The time period available for creating the new venture – it is limited

Opportunity Analysis

- What market needs does it fit?
- What social conditions underline these need?
- What market research data is required?
- What competition exists?
- What does the international market look like?
- Where is the finance to make this happen?

Development of a business plan

- Title page
- Table of contents
- Executive summary
 - Description of business
 - Description of industry
 - Marketing plan
 - Financial plan
 - Production plan
 - Organization plan
 - Operational plan
 - Summary
- Appendices (Exhibits)

Determination of the required resources

- Existing resources of the entrepreneur
- Resource gaps and available resources
- Access to needed resources

Management of the resulting enterprise

- Management style
- Key variables for success
- Identification of problems and potential problems
- Implementation of control systems

Entrepreneurial Decision Making

- Strategic orientation
 - The decision making is totally dependent on their perception of opportunity unlike managers
- Commitment to opportunity
 - Entrepreneur is pressured by the need for action, short decision windows, willingness to assume risk and has a short time span
- Commitment to resources
 - Is again short term and ensure that they are productive

Entrepreneurial Decision Making

- Control of resources
 - Strives to hire resources for short periods of time, on an as-needed basis
- Management structure
 - Is very flat, as he is trying to hasten the decision making process

Traditional Managers

- Primary motive is promotion and moving up the hierarchy, concerned with status
- Short term focus – quotas, budgets, targets
- Delegation and supervision
- Averse to taking risk
- Tries to avoid making mistake
- Agrees with those in the upper management
- Hierarchy as basis of relationship

Entrepreneurs

- Primary motive is to create value and profit, not concerned about status
- Looking for survival and 5-10 years of growth
- Direct involvement
- Moderate risk taker
- Deals with mistakes and failures
- Follows dream
- Transaction and deal making as basis for relationship

Intrapreneurs

- Independence and ability to advance, driven by status
- Has self imposed time orientation
- Direct involvement
- Moderate risk taker
- Able to get others to agree to achieve dream
- Transactions within hierarchy

Intrapreneurial Environment

- Organization operates on frontier of technology
- New ideas encouraged
- Trial and error encouraged
- Failures allowed
- Resources available and accessible
- Multidiscipline teamwork approach
- Long term horizon
- Appropriate reward system
- Support of top management
- Sponsors and champions available

Intrapreneurial Leadership Characteristics

- Understands the environment
- Visionary and flexible
- Creates management options
- Encourages team work
- Encourages open discussions
- Builds a coalition of supporters
- Persists

Individual Entrepreneur

Entrepreneurial Feelings/ Attributes

- Locus of control
 - Attribute indicating sense of control that one has over life, drive to achieve
- Feeling of independence
- Need for achievement
- Risk taking

Entrepreneur Background

- They are very secure individuals
 - Strong sense of belonging
 - Confident
- They have a strong support system
 - Family
 - Mentors
- Strong sense of values

Creating & Starting The Venture

Creativity & Business Idea

New Business development Process

Front end
Planning

Business Strategy development or Review

New Business Strategy development

Idea generation

- Screen ideas against new business strategy

Concept development and evaluation

- Test concept with customers & employees

Business analysis

- Test for profitability and feasibility

Product development and testing

- Conduct product prototype test

Implementation

Market testing

- Test product & other marketing mix element

Commercialization

Post introduction evaluation

Sources of New Ideas

- Consumers
- Existing companies
- Distribution channels
- Government
- Research and development

Methods of Generating Ideas

- Focus group
 - Group of individuals providing information in a structured format
- Brainstorming
- Problem inventory analysis
 - Obtaining new ideas by focusing on problems
 - Food industry (ITC – Taste of India)
 - Weight
 - Taste
 - Appearance
 - cost

Product Planning & Development Process

Idea
Evaluate

Idea Stage

Development
Evaluate

Concept Stage

Pilot Production
Evaluate

Product Development Stage

Commercial Plans
Evaluate

Test Marketing Stage

Determining Need for New Product Idea

- Type of need
 - Continuing/ declining/ emerging/ future
- Timing of need
 - Duration/ frequency
- Competing ways to satisfy the need
- Perceived benefits/ risks
- Price versus performance features
- Market size and potential
- Availability of customer funds

Determining Value for New Product Idea

- Cash outflow
 - R&D/ Production/ Marketing/ Capital cost
- Cash inflow
- Profit
- Relative returns
 - Return on equity
 - Return on investment
 - Return on assets
- Relative returns compared to other investments

Legal Issues

Intellectual Property

Any patents, trademarks, copyrights, or trade secrets held by an entrepreneur are intellectual property

Legal Issues

- Appoint
 - Auditor
 - Lawyer
- Other issues
 - International Patents
 - Trademarks
 - Copyrights
 - Trade secrets – employee contracts
 - Licensing
 - Insurance
 - Customers/ supplier contracts

Business Plan

Business Plan

Business plan is a written document describing all relevant internal and external elements and strategies for starting a new venture

Scope and Value

- It determines the viability of the venture in a designated market
- Provides guidance to the entrepreneur to plan their activities
- Its an important tool to help obtain finance

Stake Holders

- Investors
- Bankers
- Venture capitalists
- suppliers
- Employees
- Customers
- Advisors
- Consultants

Market Information

- Market size
- Market potential for their products
- Target market

Operations Information

- Location of the enterprise
- Manufacturing operations
 - Own manufacturing
 - outsourcing
- Raw materials
- Equipments
- Labor skills and availability
- Space – owned or leased
- Overheads and working capital

Financial Information

- Capital required
- Funding
 - Institutions
 - Owner capital
- Assets and liabilities
- Expected sales and expenses for the first three years
- Cash flow for the first three years
- Current balance sheet figures and pro forma balance sheets for the first three years

Writing A Business Plan

1. Introductory page

- a) Name and address of business
- b) Name(s) and address(es) of principals
- c) Nature of business
- d) Statement of financing needed
- e) Statement of confidentiality of the report

Writing A Business Plan

2. Executive summary

- 3 – 4 pages summarizing the complete business plan

Writing A Business Plan

3. Industry analysis

- a) Future outlook and trends
- b) Analysis of competitors
- c) Market segmentation
- d) Industry forecast

Writing A Business Plan

4. Description of venture

- a) Vision of the venture
- b) Products (s)
- c) Service (s)
- d) Size of business
- e) Office equipment and personnel
- f) Background of entrepreneurs

Writing A Business Plan

5. Production plan

- a) Manufacturing process
- b) Subcontracting if any
- c) Physical plant
- d) Machinery and equipment
- e) Names of suppliers of raw materials

Writing A Business Plan

6. Marketing plan

- a) Pricing
- b) Distribution
- c) Promotion
- d) Product forecasts
- e) controls

Writing A Business Plan

7. Organizational plan

- a) Form of ownership
- b) Identification of partners or principal shareholders
- c) Authority of principals
- d) Management team background
- e) Roles and responsibilities of members of organization

Writing A Business Plan

8. Assessment of risk
 - a) Evaluate weakness of business
 - b) New technologies
 - c) Contingency plans

Writing A Business Plan

9. Financial plan

- a) Pro forma income statement
- b) Cash flow projections
- c) Pro forma balance sheet
- d) Break even analysis
- e) Sources and application of funds

Writing A Business Plan

10. Appendix (backup material)

- a) Letters
- b) Market research data
- c) Leases or contracts
- d) Price list of suppliers

Implementing Business Plan

- Inventory control
- Production control
- Quality control
- Sales control
- Disbursements

Why Business Plans Fail?

- Goals set are unreasonable
- Goals are not measurable
- Entrepreneur not completely committed to business
- Entrepreneur has no experience as well as skilled personnel
- Customer needs for the products were not established
- Has no idea of potential threats to business

Marketing Plan

Marketing Plan

Examine present & prospective products/ market situation



Organization goals and restraints



Set marketing objectives that are SMART



Determine marketing strategies with action plan



Reevaluate programs against objective



Objectives attainable

Objectives not attainable



Marketing plan with steps to monitor progress



Marketing plan with steps to monitor progress



Match feasibility against resource availability

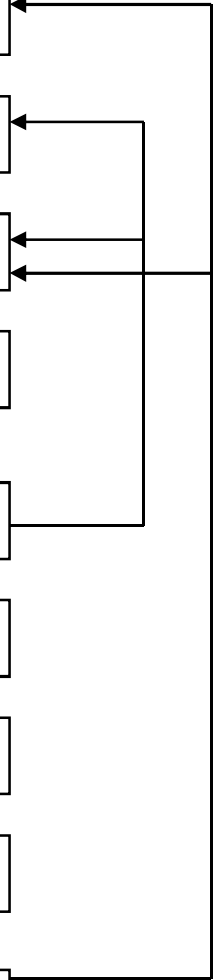


Feasible

Not feasible



Submit marketing plan for approval and execution



Examine present & prospective products/ market situation

- Situation analysis
 - Background of the venture
 - Market opportunities and threats
 - Competitor analysis
 - Strengths and weaknesses of the venture
- Marketing objectives and goals

Determining Marketing Strategy

- Determining the marketing mix
 - Product mix
 - Promotion/ Communication mix
 - Pricing mix
 - Distribution mix
- Determining the STP

Financial Plans

- Pro forma income statements
- Pro forma cash flows
- Pro forma balance sheets
- Break even analysis
- Pro forma sources and uses of funds

Entrepreneurial Development Programmes (EDPs)

- Entrepreneurship plays a vital role in the economic development of a country.
- After liberalisation and globalisation, the role of entrepreneur has reduced. This calls for organisation of EDP's for the development and growth of entrepreneurs.

EDPs

- A Programme designed to help a prospective Entrepreneur would achieve the following objectives :
- Identify abilities.
- Analyse the environmental setup of small scale business and industry.
- Fulfilling his entrepreneurial motives.
- Acquiring skills & capabilities.
- Motivating
- Arranging sources of help and provide support systems and procedures
- To provide training assistance.

- Prepare him to face the uncertainties involved in running a business.
- Develop a broad vision about the business.
- Develop passion for integrity and honesty.
- Make him learn compliance with law.

Need and Relevance of EDP's

- It is now believed that Entrepreneurs are made not born.
- EDP's are based on this belief that they can inculcate relevant attributes ignite the dormant skills and talents, change the outlook and convert the ideas into action through the systematic and organised training.
- They tend to change the personality of the participants.

Role & Contribution of EDP's in India

- Great role in increasing the supply of new entrepreneurs to accelerate the process of industrialisation.
- Elimination of Unemployment & Poverty
- Balanced Regional Development
- Utilisation of local resources
- Large scale employment can reduce unrest and violence amongst the youth as they would be gainfully employed.

Phases of EDP's

- Pre-training phase-
- Identification & Selection of Entrepreneurs (written test, personal interviews)
- Designing of course curriculum
- Selection of necessary tools, techniques and arrangement of Infrastructure.
- Arranging Guest Speakers after finalising training syllabus.

Training Phase

- To develop “need for achievement” in employees i.e motivation.
- Is the person mentally prepared to undertake risk and uncertainty?
- Does the person have the right attitude ?
- What kind of entrepreneurial traits the trainee lacks the most?
- Whether the trainee possesses the requisite knowledge of technology & resources.

- Phase of guidance and monitoring
- Practical exposure, preparation of project report.
- This facilitates in understanding buying and consumer behavior.
- Phase of guidance and monitoring

Post training phase

- Ultimate objective is to prepare the participants to start their own enterprise.
- This is basically the follow up phase.
- i.e follow up meeting of the officials of EDP with the participants.
- To see how far the objectives have been achieved.
- Are there any drawbacks.
- Suggesting guidelines for framing future policies to improve performance.

- Assistance in selection location of unit.
- Help in bringing the trainees in touch with financial institutions.

Evaluation of EDP

- To review the first three phases.
- To help expedite the process of borrowing from the Institutions.
- Few problems:
- Faced difficulties in getting finance.
- Procedures for getting plot, power connection time consuming

Role of Govt in organising EDP's

- In 1950's the Govt realised the importance of promoting small industries. It set up at the National Level:
- Small Industries Development Corporation (SIDC)
- Khadi and Village Industries Commission (KVIC) for prodn and mktg of Khadi & handicraft items.

- Industrial Finance Corporation of India(IFCI).
- National Small Scale Industrial Development Corporation (NSSIDC)
- National Bank of Agriculture and Rural Development (NABARD)
- Small Industries Development Bank of India(SIDBI)
- National Institute of Small Industry Extension Training (NISIET)

State Level

- Small Industries Service Institutes (SISI)
- District Industrial Centres (DIC)
- State Financial Corporations (SFC)
- State Small Industries Corporations (SSIC)
- State Industries Corporations (SIC)

Importance of Entrepreneurial Training

- It's an integral input for management development.
- It makes sure the availability of skilled labour at all levels of mgmt.
- Increases efficiency, abilities, speed and performance.
- Minimises wastage, accidents, fatigues and defects.
- Improves good relations and team spirit.

EDP

- Training-Process by which aptitudes , skills and capabilities of an individual employee to perform a certain job are enhanced.
- Development- Nature and direction of change induced in the employee through the process of education and training.

Entrepreneurial Training

- Objectives
- To impart knowledge about Industry, production and methods
- Build necessary skills
- Impart latest concept , techniques and information.
- Impart customer education
- Impart knowledge of mktg of goods.

Principles or Essentials of ET

- Presence of the right Atmosphere.
- Qualified and trained instructors.
- Long duration
- Theoretical as well as practical training.
- Helping them develop necessary skills.

EDT SHOULD COVER

- Conducting studies, market surveys and research.
- Information on Govt Policies and Programmes of assistance and support systems.
- Scientific managerial techniques.
- Various aspects of management: finance, mktg, prodn, inventory control, labour laws and taxation.

Concept of Intrapreneurship

- It's a process by which new ventures are born within the confines of an existing corporation.
- Also known as Corporate Entrepreneurship.
- Innovative employees disrupt the organisation in constructive ways to instigate new products and services.

- Shiv Nadar and friends left DCM to start HCL.
- Intrapreneurial activities-
- 1)Corporate Venturing- creating new businesses.
Creating something of value either by redefining the company's current product or service or by developing a new market

- 2).Organisational Innovation- technological innovation affecting a product or service.
- 3).Self renewal- Transforming an orgn by renewing the key ideas that form the basis of an orgn.
- 4).Proactiveness- Experimenting, making use of aggressive opportunities, risk taking. They are leaders by innovation rather than just following their competitors.

Essence of Intrapreneurship

- To encourage top executives to become entrepreneurs within an organisation rather than establish themselves independently.

Intrapreneur vs Traditional Managers and Entrepreneurs

- Motivation- Traditional Mgrs –Corporate Rewards, promotion, better facilities, power
- Intrapreneur- Independence and career advancement.
- Entrepreneur- Independence, money and achievement.

Risk Profile

- Manager- cautious
- Intrapreneur / Entrepreneur-Moderate risk taker
- Activity- Mgrs - Delegates, more of supervision rather than self involvement.
- Intrapreneur / Entrepreneur- Direct Involvement

Time Perspective

- Manager- short term
- Intrapreneur – Medium term
- Entrepreneur- Long term

Decision Making

- Managers- In accordance with senior managers.
- Intrapreneur - Able to get others to agree
- Entrepreneur – Follows dreams with the power of decision making.

Contents discussed.

- Sociological theories
- Economic theories
- Cultural theories
- Psychological theories
- Models of Entrepreneurship

1.Sociological Theories

Theory of religious belief – Max Webber

Theory of religious belief- Max Weber

- According to Max Weber, entrepreneurism is a function of religious belief and the impact of religion shapes the entrepreneurial culture.
- He emphasized that the entrepreneurial energies are exogenous supplied by means of religious belief.

Elements of Weber's theory

- **Spirit of capitalism:** Spirit of capitalism is the guiding factor which guides the entrepreneur to get engaged in activities that can bring about more and more profit.
- **Adventurous spirit:** Spirit of capitalism is influenced by strict discipline, where as, adventure spirit is affected by the force of impulse.

Elements of Weber's Theory

- **Protestant ethic:** According to Weber, attitude can be provided by protestant ethic irrespective of cultural background, personality type and experiences in the society. He also adds that, Hinduism lacks this sort of mental attitude which acts as a stumbling block in their way to entrepreneurship
- **Inducement of profit:** The principle of low prices and large turnovers was the mechanism of the entrepreneurs to reap profits. This motive of profit guided protestant ethic to become entrepreneurial which was not found among Hindus

Criticisms and limitations.

- A] There is only one system of Hindu value.
- B] The Indian community internalized those values and translated them in to daily routine.
- C] These values remained immune to and insulated against external pressures and change.

Theory of Entrepreneurial Supply – Thomas Cochran

Theory of Entrepreneurial supply- Thomas Cochran

- Beginning with the premise that fundamental problems of economic development are non-economic, he emphasizes on the cultural values, role expectation and social sanctions as the key elements that determine the supply of entrepreneurs.

Elements of the Cochran theory

- Entrepreneur as a society's modal personality: entrepreneur is neither a supernormal individual nor a deviant person but is a role model of the society representing modal personality.
- Modal personality as a derivative of social conditioning: the role is partly shaped by the modal personality that is a derivative of social *conditioning of his generation*. Further, *innovation and invention* go together with the type of conditioning in the society.

- Role expectations and entrepreneurial role: Primary cultural factor operating on the personality of the executive and the defining of his role by those involved must accommodate to some degree to the necessities of the operation to be carried out.
- The type of childrearing and schooling and its influence on intrinsic character of the executive: the executive's 'inner character' is conditioned by the childrearing and schooling common to the culture legacies.
- Dynamics of entrepreneurship and thrust upon the social factors for the major changes

Theory of Social Change – E.E. Hagen

Theory of Social Change-E.E.Hagen

- How a traditional society becomes one in which continuing technical progress takes place. The theory exhorts certain elements which presumes the entrepreneur's creativity as the key element of social transformation and economic growth.

Elements of E.E.Hahen theory

- **Presentation of the general model of the society:** reveals a general model of the society which considers interrelationship among physical environment, social culture, personality and culture.
- **Economic growth:** Product of social change and political change: He viewed entrepreneur as a creative problem-shooter who brings about economic development which is mingled with political and social changes.

- **Rejection of follower's syndrome:** rejecting the idea that the solution to economic development lies in imitating western technologies, Hagen insisted that the follower's syndrome on the part of the entrepreneur, is discouraged. This is because the technology is an integral part of socio cultural-complex, and super-imposition of the same into different sociocultural set-up may not deliver the goods.
- **Historic shift as a factor of initiating change:** Historic shift is the crucial force which has brought about the social change and technological progress thereby leading to the emergence of entrepreneurial class from different castes and communities.

- **Withdrawal of status respects as the mechanism for rigorous entrepreneurial activity:** When withdrawal of status respect occurs, it leads to four different responses and creation of four different personality types, namely:
 - **Retreatist:** One who constantly does his work in the society but remain indifferent to his own position.
 - **Ritualist:** One who adopts a kind of defensive personality
 - **Reformist:** One who initiates rebellion and attempts to establish a new order in the society
 - **Innovator:** A creative individual who converts all odds into opportunities and is likely to become an entrepreneur

Example

- Dr. Mammohan Singh (tenure as financial minister from 1991)
 - Dr. Manmohan Singh can be termed as a reformist for Indian Economy.

Theory of Group Level Pattern – F. Young

Theory of Group Level Pattern

- F. Young has elaborately analyzed the shortcomings of psychogeneric interpretation of entrepreneurship and suggested a casual sequence where *transformation codes* are developed by the solidarity groups to improve their symbolic position in their larger structure and thus become entrepreneurs.

Features of Group Level Pattern Theory

- **Deficiencies in psychogenic mediation model:** According to Young, “Of entrepreneurs in particular, imitative time taken by the development process are some of the demerits of psychogenic interpretation of entrepreneurship”
- **Solidarity Groups:** Young regarded the solidarity groups as the main agencies for building entrepreneurship. He mentions that entrepreneurship characteristics are found in clusters, ethnic communities, occupational groups or politically oriented factions.

Features of Group Level Pattern Theory

- **Disregarding single-handed concept of entrepreneurship:** According to Young, entrepreneurship is the product of family background, experience and exposure of the individual as a member of the group and as a reflection of general values. Thus, entrepreneur as a member of a particular group doesn't work alone.
- **Reduction of complex economic problems:** The effort of solidarity group is likely to reduce the economic problems through the device of recombination of factors related to production, higher standards of labor, new technology and markets and more effective management of time and money

Features of Group Level Pattern Theory

- **Incorporation of reactive subgroups:** According to Young, a group becomes reactive when three important conditions coincide. These conditions are:
 - a) When low status recognition is found in a group
 - b) When access to important social networks is denied
 - c) When the group has better institutional resources than other groups in the society at the same level

Example

- Dr. Babasaheb Ambedkar
 - The entrepreneurship quality in Dr. Babasaheb Ambedkar can be seen during the harijan movement.

2. Economic Theories

Schumpeter's Theory of Innovation

About Schumpeter's Theory

- It implies that carrying out of new combinations of entrepreneurship is basically a creative activity.
- According to him, an entrepreneur is one who perceives the opportunities to innovate.
- Innovation involves problem solving and the entrepreneur is problem solver.

Innovation Cover 5 Cases

1. The introduction of *new goods*, that is the one with which consumers are not yet familiar, of a new quality .
2. The introduction of *new method of production*, that is yet to be tested by experience in the branch of manufacture concerned which need, by no means, to be founded upon a scientifically new discovery and can also exist in a way of handling a commodity commercially.

Innovation Cover 5 Cases

3. The opening of *new market*, that is a market in which the particular branch of manufacture of the country in question has not previously entered, whether or not this market is has existed before.
4. The conquest of a *new source of supply of raw material* or semi-manufactured goods, again irrespective of whether this source already exists or whether it has first to be created.
5. The carrying out of *the new organization*, of any industry like the creation of monopoly position through fructification or breaking up of a monopoly position.

Features of Schumpeter's Theory

- Distinction between invention and innovation
- Emphasis on entrepreneurial functions
- Presentation of disequilibrium situation through entrepreneurial activity
- Entrepreneurship in relation to three corresponding pairs of opposites
- Characteristic motives of the entrepreneurial conduct
- Entrepreneurial dream and the will to find a private kingdom

Criticisms of Schumpeter's Theory

- It has broaden the scope of entrepreneurism since it includes the individual businessman along with the directors and managers of the company. It is considered narrow in senses that individuals operates successful business enterprise but lacks innovation.
- His innovating entrepreneur represents the enterprise with R&D and innovative character. But developing countries lack these type entrepreneurs.

Criticisms of Schumpeter's Theory

- Theory gives too much emphasis on innovation and excludes the risk taking and organizing aspects of entrepreneurship which are equally important from the point of view of enterprise building.
- Schumpeter's entrepreneurs are large scale businessmen who introduce new technology, methods of production, etc. But in underdeveloped countries entrepreneurs doesn't have large scale enterprise, also they prefer to operate in traditional technology.

Example

- Example that can be related to Schumpeter's Theory
 - Tata Group
 - Innovation in different industries
 - Innovation in Geographical expansion (eg. Africa)
 - Innovation within the Industry (eg. Tata Nano – creating new market of middle class people's aspiration to own a car)

Leibenstein's Theory of X-efficiency

About Leibenstein's Theory

- **Harvey Leibenstein** propounded the theory of X-efficiency which is popularly called *Gap Filling Theory*.
- According to Leibenstein, entrepreneurial functions are determined by the X-efficiency which means the degree of inefficiency on the use of resources within the firm.

Features of Leibenstein's Theory

- Routine Entrepreneur
- New Entrepreneurship
- Twin roles of entrepreneur
 - Gap Filling
 - Input completing
- X-efficiency factor

Example

- Example of Leibenstein's Theory
 - Lalu Prasad Yadav as an entrepreneur for Indian Railways.
 - Turned around the Indian Railways by improving efficiency and innovation.
 - Some decisions may not have been rational according to stakeholders (Eg. Excessive attention on U.P. and Bihar)

Mark Casson's Theory

About Mark Casson's Theory

- Mark Casson thinks it is quite fashionable now-a-days to be an entrepreneur. His theory deals with the functional behavior of entrepreneur and his qualities which are crucial for his success.
- Casson defines an Entrepreneur as “ someone who specializes in taking judgmental decisions about coordination of scarce resources”
- Decisions differ from other peoples' decisions

Features of Mark Casson's Theory

- Demand – Supply Relationship
- Identification of qualities
- Theory reveals that in development of successful entrepreneurship the following things are not to be followed:
 - The demand for entrepreneurship need to be adjusted as per the changing needs of time.
 - The deficient qualities of the entrepreneur should be made good by personal care.

Example

- Example of Mark Casson's Theory
 - Narayan Murthy
 - Identified the demand supply relationship and his qualities and then established Infosys
 - Used his and his company's qualities to become one of the best I.T. Firms in the world.

Papanek and Harris Theory

Features Papanek and Harris Theory

According to Papanek and Harris, economic incentives are the integral factors that have induced entrepreneurial initiatives. Main Features of this theory are as under:

- Economic incentives
- Link between economic gains and the inner urge
- Economic gain – sufficient condition

Harvard School Theory

About Harvard School Theory

Harvard School Contemplated that entrepreneurship involves any deliberate activity that initiates, maintains and grows a profit-oriented enterprise for production or distribution of economic goods or services, which is inconsistent with internal and external forces.

Features of Harvard School Theory

- ***Internal Forces:*** These forces refer to the internal qualities of the individual such as intelligence, skill, knowledge experience, intuition, exposure, etc. These forces influence the entrepreneurial activities of an individual to a great extent.
- ***External Forces:*** These forces refer to the economic , political, social, cultural and legal factors which influence origin and growth of entrepreneurship in an economy.

Emphasis on Type of Entrepreneurial activities

- This theory emphasizes on two type of entrepreneurial activities:
 1. Entrepreneurial functions like organization and combination of resources for creating viable enterprises
 2. The responsiveness to the environmental condition that influences decision making function

Emphasis on Type of Entrepreneurial activities

- Besides the above mentioned activities, Harvard School also emphasizes on following points:
 1. To search and evaluate economic opportunities
 2. To master the process of mobilizing resources to accomplish the goal
 3. To interconnect the different market segments for creating absolutely an ideal marketing environment
 4. To create or expand the firm or business enterprise

Example

- Example of Harvard theory.
 - Mr. Laxmi N. Mittal
 - Came out as a good entrepreneur even during the time of economic crisis.
 - Has become the second largest steel producer in the world

M.Kirzner's Theory of Adjustment

Features of M. Kirzner's Theory

- **Adjustment of Price:** The chief role of entrepreneur is based upon the adjustment of price in the market. The buyer may pay higher price or seller may accept a lower price, which gives rise to opportunities for profit. Further if different prices prevail in the same market, there is an opportunity for profitable arbitrage between two segments.
- **Alertness to disequilibrium:** Alertness to disequilibrium enables the entrepreneur to intervene in the market by changing the price. Thus, economy in purchase and profitable selling results in economic gains

McClelland's Theory of Achievement Motivation

Aspects of David McClelland's Theory

- Need for Achievement
- Need for Power
- Need for Affiliation

David McClelland points out that 'n Ach' i.e. Need for Achievement is the factor responsible for entrepreneurship development

Aspects of David McClelland's Theory

- Characteristics that governs the economic behavior of a person to become entrepreneur are:
 - Doing things in a novel and excellent manner
 - Decision making under uncertainty

Example

- Karsanbhai Patel of Nirma

Knight's Theory of Profit

Features of Knight's Theory

Knight points out that entrepreneurs are specialized group of persons who bears risk and deals with uncertainty. Main features of this theory are:

- Pure Profit
- Situation of Uncertainty
- Risk Bearing Capability
- Guarantee of Specified Sum
- Identification of Socio Economic and Psychological Factors
- Use of consolidation techniques to reduce business uncertainty
- Self Confidence

Example

- Bhai Mohan Singh of Ranbaxy
 - He run a profitable business for many years
 - Had high risk bearing capability
 - Found a golden opportunity to exit Ranbaxy and he grabbed it

Hayek's Theory of Market Equilibrium

Feature of Hayek's Theory

- **Postulate of Full Equilibrium:** This postulate presupposes the fact that there is no need for further information to modify the decision
- **Acquisition and Communication of the Knowledge**
- **Markets as a medium of Communications:** Entrepreneurs through market communications reach at desired level of sales to arrive at equilibrium

3. Cultural Theories

Hoselitz's Theory

Features of Hoselitz's Theory

- **Hypothesis of Marginal Men:** Marginal Men are ambiguous for cultural and social statement and are particularly suited to make creative adjustments in situations of change and in course of this change, they develop genuine innovations in their social behavior
- **Emphasis on the functions of managerial and leadership skill**

Features of Hoselitz's Theory

- **Contribution of Specific Social Classes:**

Hoselitz reveals that in several countries entrepreneurial talents are found in persons having particular socio-economic background. For e.g.: Christians contributes to entrepreneurship in Lebanon, Halai Memon industrialists in Pakistan and Marwadis and Parsis in India.

Example

- JRD Tata
 - Parsi by religion

Stoke's Thoery

Stoke's Thoery

Stoke's theory portrays that entrepreneurship is likely to emerge under specific social sanctions, social culture and economic action. According to stoke, socio-cultural values channel economic action. He suggests that personal and societal opportunities and the presence of requisite psychological distributions may be seen as conditions for an individual movement to get changed into industrial entrepreneurship

Example

- Dhirubhai Ambani
 - From bhajiya seller to textile Trader to entrepreneur

4. Psychological Theories

Theory of Personal Resourcefulness

Implications of Theory of Personal Resourcefulness

- **Cognitive Function:** Theory presupposes the activities undertaken by the individuals who require cognitively mediated behavior like emotions, sentiments, inner feelings, thoughts and actions are fully appraised of the situation and knowledge which is shaded by risk and motivational involvement
- **Human aspects of Psychology:** Different aspects of psychology like human volition, innovation, organization building, will to power, will to conquer, etc. influences entrepreneurship

Theory of Entrepreneurial Supply

Theory of Entrepreneurial Supply

- John H. Kunkel advocated the theory of Entrepreneurship Supply. According to him, psychological and sociological variables are the main determinants for the emergence of entrepreneurs. According to him, Entrepreneurism can be dependent upon the following structures in the economy:
 - Demand Structure
 - Limitation Structure
 - Labor Structure
 - Opportunity structure

Base of Theory of Entrepreneurial Supply

- Theory of Entrepreneurial Supply has been depicted under J.H. Kunkel's Behavioral Model. Base of Behavioral Model is as under:
 - Man's internal state – beyond objective analysis
 - Conditioning procedure, determinant of individual activities
 - Behavioral approach and human spirit
 - Model contrast with psychogenic approach
 - Role of ambiguous and inadequate concepts

Example

- Verghese Kurien
 - White revolution
 - Saw opportunity in uplifting the Dairy farmers and earn profits at the same time

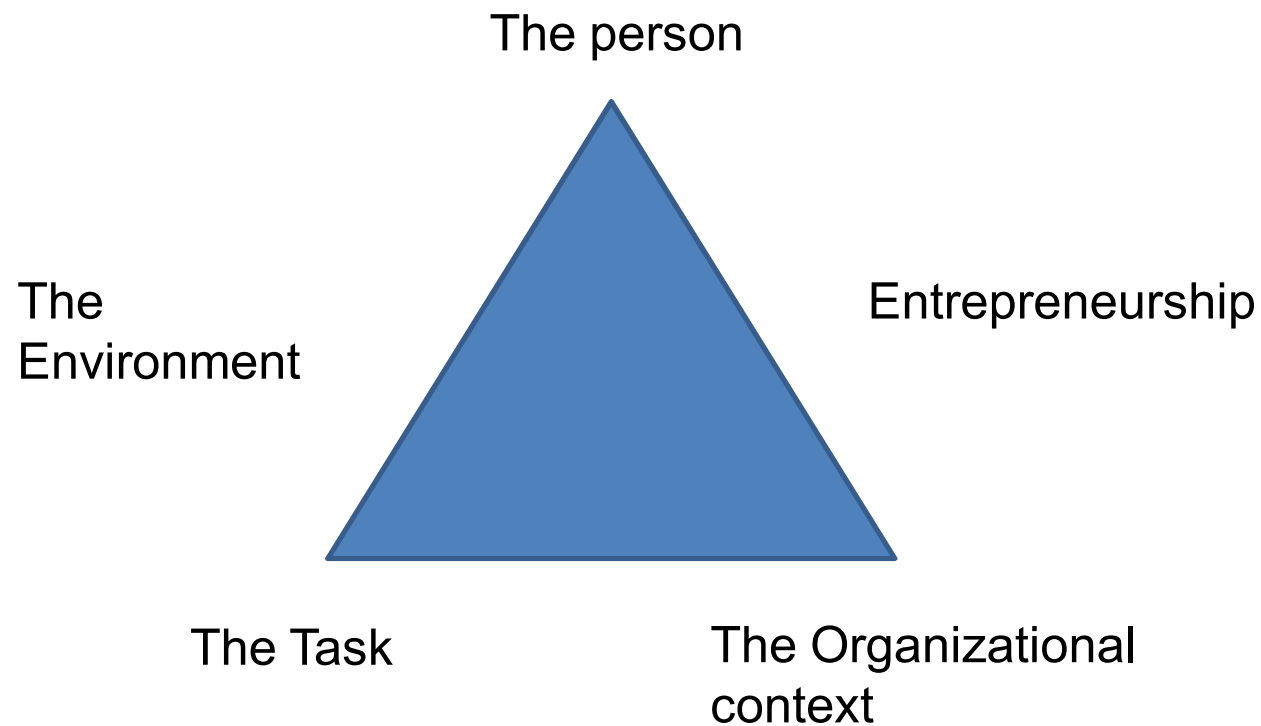
5. Models on Entrepreneurship

Kao's Conceptual Model

Kao's conceptual model

- According to Kao, entrepreneurship and creativity result from the interrelationship of the following three elements as shown in the following figure
 - The person
 - The task
 - The organizational concept

Kao's conceptual model



Contd. .

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

Contd. .

- Element 2:-
 - The task is what a group of people or organisation does
 - They may be determined by an individual's personality or private vision & are shaped , infulenced by organisational strategy , external environment respectively
 - The task includes perceiving of oppurtunities, marshalling the resources & providing leadership qualities appropriate for the entrepreneurial growth

Contd. .

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

Contd. .

- Finally the above elements exist in an environment which refers to the outside world surrounding the organisation.
- environment includes in it the available resources, infrastructure, competitive pressures, social values, rules and regulations, state of technology.
- And as such the environment influences the enterprise creation significantly and the most successful entrepreneur is one who adapts himself to the changing needs of the environment and makes it hospitable for the growth of this business enterprise