MBA – 4th Semester

MBA 402: ENTREPRENEURIAL & CORPORATE SKILL DEVELOPMENT

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1. Nature, Importance and Opportunities of Entrepreneurship: Definition - Entrepreneurs vs. Inventors - The Entrepreneurial Process - Types of Start-ups - Managerial versus Entrepreneurial Decision Making – Role Models and Support Systems - Entrepreneurial Intentions within Existing Organizations – Establishing Corporate Entrepreneurship in the Organization - International vs. Domestic Entrepreneurship - Culture, Economic System and Development.

UNIT – I

Unit Structure

Lesson 1.1 - An Overview of Entrepreneurship

Learning Objectives

Having gone through this lesson, you may be able to:

Understand the concepts of entrepreneurship, its need and scope Understand meaning of term entrepreneur, classification of entrepreneur and qualities of an entrepreneur Appreciate the concept of innovation

Introduction

Entrepreneurship refers to all those activities which are to be carried out by a person to establish and to run the business enterprises in accordance with the changing social, political and economic environments.

Entrepreneurship includes activities relating to the anticipation of the consumers likes and dislikes, feelings and behaviors, tastes and fashions and the introduction of business ventures to meet out all these expectations of the consumers.

Entrepreneurship is considered as a 'new product' that would enable businessmen to develop new form of business organization and new business activities catering to the changing needs of the society. The liberalization of cultural rigidities are mainly due to this new product 'entrepreneurship'.

Entrepreneurship is the ability of entrepreneurs to assess the risks and establish businesses which are risky but at the same time suits perfectly to the changing scenarios of the economy.

The two major factors determine the entrepreneurship developments are:

Risk taking ability of entrepreneurs and

Power of achievement of entrepreneurs

The other factors are:

The performance of speculative functions to gain edge over others.

Considering new factors of production, time, technology and quality for success.

Availing new sources of capital Performing functions of employer, master, merchant and undertaker.

Supply goods and services which are hitherto unknown to consumers. Find a new market which is hitherto unexploited. Seizing new opportunities for exploitation.

Developing the less developed countries and developing nations

Decision making under uncertain situations.

Entrepreneurship development could be made through a collective approach of the qualified individuals and the entrepreneurial role played by the Government and other agencies. They strive for betterment and provide conducive infrastructure including the technology that is unheard and unthought so far.

The essential Elements of Entrepreneurship Development are given in the following exhibit.

Concepts of Entrepreneurial Traits

The three prevailing concepts of entrepreneurship are:

1. Psychological Traits

Entrepreneurship development is due to the ability of the individuals' urge to achieve something in their life. This concept was developed by Mc Clelland. According to him individuals have psychological urge to achieve something new. Of course the degree of urge varies from one individual to the another. Those who have high degree of urge to achieve in their life become entrepreneurs and all the activities enabling them to fulfill their urges are called entrepreneurship.

Mc Clelland's research results reveal that the entrepreneurship and its development are the results of a combination of three needs of individuals viz.,

Low need for achievement.

High need for power and

Low need for affiliation.

Sociological Traits

Entrepreneurship development is also due to the sociological traits of the individuals living in a particular place. Certain individuals would like to attain status in the society by means of setting up of a new business or industry. However, they are allowed to act within the constraints of the cultural norms and religious moves that are customary in the society.

3. Economic Factors

Apart from the psychological and sociological factors, entrepreneurship development is also due to the existing economic activities of the state where the entrepreneurs live. Individuals learn from the existing economic activities as how best to equip themselves for meeting the future challenges. They collect adequate economic and technical information and decide as how best to introduce new business that suits to the expectations of the Government and its revised economic policies.

Thus, the concept of entrepreneurship is very is widely changing and entrepreneurship and its development is said to be in existence so long as the humankind are in existence and the spheres of entrepreneurship activities are getting multiplied every now and then due to the changes that have been taken place in the liberalization, Privatization, and Globalization (LPG) era.

Definition of Entrepreneurship

In a changing environment, the entrepreneurship development activities are getting multiplied. Since the dawn of industrial revolution to till date, we encountered certain drastic changes in the economic activities. Thus, it is not an easy task to give a comprehensive definition for the word 'entrepreneurship'. Despite that, relevant definitions of entrepreneurship are listed here.

"Entrepreneurship as the function of seeking investment and production opportunity, organising an enterprise to undertake a new production process, rising capital, hiring labour, arranging the supply of materials, finding site, introducing new techniques and commodities, discovering new sources of raw materials and selecting top managers of day to day operations of the enterprise".

Need and Scope of Entrepreneurship Development

The word 'Entrepreneurship' is very often confused with the word Entrepreneur'. They look alike but carry different meanings. Entrepreneurship is nothing but all those activities which are to be undertaken by an entrepreneur. The prevailing socio, political and economic activities act as a propelling force for the aspiring personalities to become entrepreneurs. Entrepreneurship development is the outcome of the entrepreneurs. In other words, the entrepreneurs give birth to entrepreneurship. This statement is partially true because certain activities of the entrepreneurs are due to the existing policies and programmes of the Central as well as the state governments and not only by the entrepreneurs themselves. Under such circumstances, it is not the entrepreneurs who give birth to entrepreneurship. Instead, it is the existing entrepreneurship development programmes that give birth to entrepreneurs. The emergence of entrepreneurs and the level of entrepreneurship development are also the far reaching changes that are taking place in the social and political activities rather than changes taking place in the economic activities.

Entrepreneur can not emerge from the vacuum. Entrepreneurship development depends upon the environment (both external and internal) within which the entrepreneurs have to do their business. Entrepreneurs are closely associated with the existing as well as the past entrepreneurial activities of the society. Business opportunities are identified from the social, political and economic crisis and in turn these crisis become the favourable climate for the entrepreneurs to innovate new business ventures. From this perspective, it is true that entrepreneurial activities are the resultant efforts of the prevailing entrepreneurship development programmes.

On the other hand, entrepreneurs keenly observe the society and its economic activities and try to elicit innovative business opportunities. They try to make use of the modern technology and manufacture new products which are hitherto unknown to the market and induce the consumers to buy them and thereby improving their standard of living. It is possible for entrepreneurs to find new market, new product and introduce a new form of organization. Therefore, the entrepreneurship development is due to the innovative thoughts and actions of the entrepreneurs. Thus the term entrepreneur and entrepreneurship are different and complementary with each other. Let us see the need and scope of entrepreneurship development in the forthcoming pages.

Scope of Entrepreneurship Development

Entrepreneurship development could be made in all walks of the society and in all fields of activities. The scope of entrepreneurship development encompasses the following:

I. To Identify Entrepreneurial Activities

The entrepreneurial activities 'and opportunities could be identified by the planner of the Government. The Government through various economic policies and programmes like 'Globalisation', 'Privatisation', 'Liberalisation', 'Free Export and Import of Goods and Services' inviting NRI's capital introduction of innovation in the stock market activities, and the establishment of SSI identifies entrepreneurship opportunities. These programmes give ample opportunities for the entrepreneurship development.

To liberalise the existing licensing policies and offer incentives and thereby attract multinational companies of various countries to develop new industries in the backward regions.

To encourage the researchers of entrepreneurship development to find new opportunities for the business and industrial development.

To identify the existing and the emerging economic, social and political crisis and find out a suitable remedial measure to overcome the crisis.

To offer training to the first generation entrepreneurs and encourage them to enter into new business ventures. To find out the entrepreneurial activities of the neighboring countries and the international financial institutions and other associated activities like bilateral agreements, SAARC countries Agreement, Common Wealth Countries agreements and Non-Aligned Nations agreements and the like.

To encourage the institutions engaged in the industrial development to find avenues for entrepreneurship development. The institutions informing entrepreneurial opportunities are:

The Government's sponsored institutes.

University Departments and entrepreneurship development institutions.

Voluntary organisations and research agencies.

The commercial banks and

Industrial Development Institutions.

II. Imparting Training to Develop Entrepreneurial Talents

Entrepreneurs can be made by means of allowing them to undergo rigorous training. The level of entrepreneurship development especially in all underdeveloped countries depends upon the extent with which the aspiring men are given training. Through training, they can be able to improve their power of achievement and power of affiliation. Training of this type shall be given to the young pupil even at the school level. The training enables entrepreneurs:

To know as how to search the innovative business ideas.

To know the various sources available for new business ideas.

How to process and find out the best ideas.

To know the various input requirements for the proposed business.

To find out the location for the proposed business.

To know as how to fulfill the various legal formalities.

To know as how best to make use of the existing infrastructural facilities.

To know the various sources of finance available for the new business venture.

To know as how best to overcome the resistance, and

To know as how to assess the market and future trend.

III. To Develop Infrastructural Facilities

Entrepreneurship development could be possible through the setting up of both social and economic infrastructural facilities for the aspiring entrepreneurs. The following infrastructural facilities are worth noting:

Impart entrepreneurship education to the pupils at the school level so as to enable them to develop the entrepreneurial talents.

Establish a separate Department of Entrepreneurship Development or School of Entrepreneurship Development at the College/ University level and allow the academics to' undertake researches on 'Entrepreneurship Development' and its allied activities.

Conduct the 'Entrepreneurship Development Programmer's through the setting up of Entrepreneurship Training Institutions at least at the taluk level in all parts of the country.

The State Governments shall give special attention to the entre-preneurship development programme. They can in collaboration with the neighboring states, chalk out a programme of action for developing entrepreneurial activities in a phased manner.

The existing financial institutions especially the commercial banks situated in rural areas shall take utmost care in identifying the aspiring entrepreneurs and offer not only the required financial assistance but also the required managerial techniques so as to enable them to establish new business and withstand in the market.

Institutions which are engaged in the development of small in-dustries shall frame long range planning in developing entrepre-neurial talents. They should monitor the changing industrial and business scenarios and determine the future course of actions to be taken to improve the entrepreneurship development.

The role of R & D institutions is not only to innovate but also to inform the entrepreneurs as how best to make use of the innovation and apply in the manufacturing process. These institutions should act as entrepreneur and all its activities constitute entrepreneurship.

Entrepreneurship development depends upon the existence of a stable Government so that industrialists and business magnets could have long range planning. Foreign investors would not hesitate to go over to any other country if there is an existence of a stable Government.

The availability of finance in time is yet another support for the entrepreneurship development. The existing tools for the better financial management are not adequate. They could be used in the giant business concerns only. Hence, the immediate need of the hour is to develop new tools that must be suitable for the effective utilisation of finance in the small scale industrial units.

Identification of the effective utilisation of the available finance itself creates ground for the development of entrepreneurial activities. The entrepreneurs could be able to mobilise funds from existing stock market arid the market shall imbibe confidence in the minds of small investors that their investments are protected and "'used for profitable business opportunities.

There must be an existence of the skilled labourers and experts who are able to make use of the latest technology. Timely, adaptation of the new technology ensures entrepreneurship development, since there are chances for making use of the new technology for alternative purposes.

Entrepreneurship could be developed through an effective communication net work. It avoids scarcity of information and ensures equilibrium in updating the knowledge of the people of the entire globe. It enables a uniform growth of the economy. The entire globe in these days is considered as a village owing to the fast communication new work system.

Absence of one or more of the above said infrastructures hinder the growth of entrepreneurship development. What is needed at present is a comprehensive planning as how best to help the young entrepreneurs to avail these infrastructure facilities.

IV. Ascertain the demand and Supply of Entrepreneurs

It is true that the economic growth depends upon the existence of the technical progress. The level of technical progress in turn depends upon the existence of the entrepreneurs. In other words, the economic growth is the resultant effect of the existing as well as future demand for and supply of entrepreneurs. Disequilibrium between these two affects the economic growth. Excess supply of entrepreneurs over demand leads to exploitation of natural resources beyond the required level. Of course it leads to 'super development'. This is one side of argument. The other side of the argument is how to measure the excess supply. If the measure it with the help of the variable' development', we can say that excess supply is found in all the industrially advanced countries. In real life, what is advanced to-day in industrially advanced countries becomes a common phenomenon tomorrow in all other developing and less developed countries.

If such is the case, it is proved that excess supply of entrepreneurs is only an imagination and it will never become true. In other words the demand for entrepreneur is a constant factor and is in existence for ever. The supply of entrepreneurs could be enhanced through motivation. As propounded my Mc Clelland, any society with generally high level of achievement will produce more real entrepreneurs who can accelerate the growth of the economy. Max Weber suggested that entrepreneurship is the outcome of the existing social conditions of the society. He was of the opinion that the entrepreneurs' personality has been determined and shaped by the existing social customs and values of the society. The living conditions of the society have been influenced by the existing cultural and religious norms, economic status of the people, their castes and inter group relations.

However it has been observed from the history that achievement of individuals is always greater than the achievement of groups. Entrepreneurship development too could be achieved more by individuals.

Definition of Entrepreneur

An entrepreneur is one of the important segments of economic growth. Basically, an entrepreneur is a person who is responsible for setting up a business or an enterprise. In fact, he is one who has the initiative, skill for innovation and looks for high achievements. He is a catalytic agent of change and works for the welfare of people.

The entrepreneur is a critical factor in the socio-economic change. He is the key man who envisages new opportunities, new techniques, new lines of production, new products and coordinates- all other activities.

The term 'entrepreneur' is defined in different manners by differ-ent experts.

"Entrepreneur is one who innovates, raises money, assembles inputs, chooses managers and sets the organisation going with his ability to identify them and opportunities which others are not able to identify and is able to fulfill such economic opportunities. Innovation occurs through i) Introduction of a new quality in a product of ii) new product iii) discovery of fresh demand and fresh sources of supply and iv) by change in the organisation and management".

Functions of an Entrepreneur

An entrepreneur is expected to perform the following functions.

1. Risk Absorption

The entrepreneur assumes all possible risks of business. A business risk also involves the risk due to the possibility of changes in the tastes of consumers, techniques of consumers, techniques of production and new inventions. Such risks are not insurable. If they materialise, the entrepreneur has to bear the loss himself. Thus, Risk-bearing or uncertainty-bearing still remains the most function of an entrepreneur. An entrepreneur tries to reduce the uncertainties by his initiative, skill and good judgment.

2. Formulate Strategic Business Decisions

The entrepreneur has to decide the nature and type of goods to be produced. He enters the particular industry which offers from he best prospects and produces whatever commodities he thinks will pay him the most employs those methods of production which seem to him the most profitable. He effects suitable changes in the size of the business, its location techniques of production and does everything that is needed for the development of his business.

3. Execute Managerial Functions

The entrepreneur performs the managerial functions though the managerial functions are different from entrepreneurial functions. He formulates production plans, arranges finance, purchased, raw material, provides, production facilities, organises sales an assumes the task of personnel management. In a large establishment these management functions are delegated to the paid managerial personnel.

4. Adopt Innovation Function

An important function of an entrepreneur is "Innovation". He conceives the idea for the improvement in the quality of production line. He considers the economic inability and technological feasibility in bringing about improve quality. The introduction of different kinds of Electronic gadgets is an example of such an innovation of new products. Innovation is an ongoing function rather than once for all, or possibly intermittent activity.

Characteristics of Entrepreneur

1. Facilitating Character

An entrepreneur must build a team, keep it motivated, and provide an environment for individual growth and career development. -

2. Self-Confidence

Entrepreneurs must have belief in themselves and the ability to achieve their goals.

3. Work with Vision and Mission

An entrepreneur must be committed to the project with a time horizon of five to seven years. No ninety-day wonders are allowed.

4. High Degree of Endurance

Success of an entrepreneur demands the ability to work long hours for sustained period of time.

5. Trouble Shooting Nature

An entrepreneur must have an intense desire to complete task or solve a problem. Creativity is an essential ingredient.

6. Initiative and Enterprising Personality

An entrepreneur must have initiative, accepting personal responsibility for actions, and above all make good use of resources.

7. Goal Setter

An entrepreneur must be able to set challenging but realistic goals.

8. Calculated Risk-Taking Ability

An entrepreneur must be a moderate risk-taker and learn from any failures.

Entrepreneur Vs Entrepreneurship

The major differences between these two terms are as follows.

Entrepreneurship is the function of seeking investment and production opportunity organising an enterprise to undertake a new production process, raising capital, arranging labour and raw materials, finding a site introducing a new technique and commodities, discounting new sources for the enterprise. Entrepreneur is one who combines capital and labour for the purpose of production.

Entrepreneur, Entrepreneurship and Enterprise

The word entrepreneur literally came from French language meaning someone who undertakes an enterprise. The word enterprise is attached to self-propelled, usually self-made businessman who thinks about a venture, dreams it, starts it, works on it and grow with it.

Entrepreneurship could be defined as ability of an individual or a group of individual to introduce changes or innovate like introduction of a new product or service, opening of a new market and carrying out a new organisation. These are indeed the early American thoughts an Entrepreneurship. Entrepreneur is a man who invests and risks time, money and effort to start a business and make it successful.

Any undertaking / venture involving some economic activity which requires risk taking ability, resources mobilization efforts, keen planning and organisation and effective decision making skill in all types of decision situations. It has got a separate entity and perpetual successions. It consists of people who work together mainly for production and selling of goods and services so as to make some economic gains. It may be of private or public, small or large, domestic or international.

Thus Entrepreneur refers a person, entrepreneurship indicates the process adopted by him and enterprise is the work place where in he adopts his entrepreneurial skilled.

Types of Entrepreneurs

Entrepreneurs are classified as under different heads as given below. This helps the potential entrepreneurs to choose his own nature and style of entrepreneurship.

According to the Type of Business

Entrepreneurs are found in various types of business occupations of varying size. We may broadly classify them as follows:

Business Entrepreneur

Business entrepreneurs are individuals who conceive an idea for a new product or service and then create a business to materialize their idea into reality. They tap both production and marketing resources in their search to develop a new business opportunity. They may set up a big establishment or a small business unit. Trading entrepreneur is one who undertakes trading activities and is not concerned with the manufacturing work. He identifies potential markets, stimulates demand for his product line and creates a desire and interest among buyers to go in for his product. He is engaged in both domestic and overseas trade.

Industrial Entrepreneur

Industrial entrepreneur is essentially a manufacturer who identifies the potential needs of customers and tailors product or service to meet the marketing needs. He is a product oriented man who starts in an industrial unit because of the possibility of making some new product.

Corporate Entrepreneur

Corporate entrepreneur is essentially a manufacturer who identifies the potential needs of customers and tailors product or service to meet the marketing needs. He is a product oriented man who starts in an industrial unit because of the possibility of making some new product.

Corporate entrepreneur is a person who demonstrates his innovative skill in organising and managing a corporate undertaking. A corporate undertaking is a form of business organisation which is registered under some statute or Act which gives it a separate legal entity.

Agricultural Entrepreneur

Agricultural entrepreneurs are those entrepreneurs who undertake such agricultural activities as raising and marketing of crops, fertilizers and other inputs of agriculture. According to the use of Technology.

Technical Entrepreneur

A technical entrepreneur is essentially an entrepreneur of “Craftsman type”. He develops a new and improved quality of goods because of his craftsmanship. He concentrates more on production than marketing. He does not care much to generate sales by applying various sales promotional techniques. He demonstrates his innovative capabilities in matters of production of goods and rendering services.

Non-technical Entrepreneur

on-technical entrepreneurs are those who are not concerned with the technical aspects of the product in which they deal. They are concerned only with developing alternative marketing and distribution strategies to promote their business.

Professional Entrepreneur

Professional entrepreneur is a person who is interested in establishing a business but does not have interest in managing or operating it once it is established.

According to Motivation

Motivation is the force that influences the efforts of the entrepreneur to achieve his objectives. An entrepreneur is motivated to achieve or prove his excellence in job performance. He is also motivated to influence others by demonstrating his power thus satisfying his ego.

Pure Entrepreneur

A pure entrepreneur is an individual who is motivated by psychological and economic rewards. He undertakes an entrepreneurial activity for his personal satisfaction in work, ego or status.

Induced Entrepreneur

Induced entrepreneur is one who is being induced to take up an entrepreneurial task due to the policy measures of the government that provides assistance, incentives, concessions and necessary overhead facilities to start a venture. Most of the entrepreneurs are induced entrepreneurs who enter business due to financial, technical and several other several other provided to them by the state agencies to promote entrepreneurship.

Motivated Entrepreneur

New entrepreneurs are motivated by the desire for self-fulfillment. They come into being because of the possibility of making and marketing some new product for the use of consumers. If the product is developed to a saleable stage, the entrepreneur is further motivated by reward in terms of profit and enlarged customer network.

Spontaneous Entrepreneur

These entrepreneurs start their business out of their natural talents and instinct. They are persons with initiative, boldness and confidence in their ability which motivate them to undertake entrepreneurial activity.

Growth Entrepreneur

Growth entrepreneurs are those who necessarily take up a high growth industry. These entrepreneurs choose an industry which has substantial growth prospects.

Super-Growth Entrepreneur

Super-growth entrepreneur are those who have shown enormous growth of performance in their venture. The growth performance is identified by the liquidity of funds, profitability and gearing.

According to Stages of Development

First-Generation Entrepreneur

A first generation entrepreneur is one who starts an industrial unit by means of an innovative skill. He is essentially an innovator, combining different technologies to produce a marketable product or service.

Modern Entrepreneur

A modern entrepreneur is one who undertakes those ventures which go well along with the changing demand in the market. They undertake those ventures which suit the current marketing needs.

Classical Entrepreneur

A classical entrepreneur is one who is concerned with the customers and marketing needs through the development of a self supporting venture. He is a stereotype entrepreneur whose aim is to maximize his economic returns at a level consistent with the survival of the firm with or without an element of growth.

Innovating Entrepreneurs

Innovating entrepreneurship is characterized by aggressive assemblage of information and analysis of results, deriving from a novel combination of factors. Men/women in this group are generally aggressive in experimentation who exhibit cleverness in putting attractive possibilities into practice. One need not invent but convert even old established products or services, by changing their utility, their value, their economic characteristics, into something new, attractive and utilitarian. Therein lies the key to their phenomenal success. Such an entrepreneur is one who sees the opportunity for introducing a new technique of production process or a new commodity or a new market or a new service or even reorganization of an existing enterprise.

Imitative Entrepreneurs: Imitative entrepreneurship is characterized by readiness to adopt successful innovations by innovating entrepreneurs. They first imitate techniques and technology innovated by others.

Fabian Entrepreneurs

These categories of entrepreneurs are basically running their venture on the basis of conventions and customary practices. They don't want to introduce change and not interested in coping with changes in environment. They have all sorts of inhibitions, shyness and lethargic attitude. They are basically risk aversor and more cautious in their approach.

Drone Entrepreneurs

Entrepreneurs who are reluctant to introduce any changes in their production methods, processes and follow their own traditional style of operations. Though they incur losses and looses their market potential, will not take any effort to overcome the problem. Their products and the firm will get natural death and knockout.

Forced Entrepreneurs

Sometimes, circumstances made many persons to become entrepreneurs. They do not have any plan, forward looking and business aptitude. To mitigate the situational problem, they are forced to plunge into entrepreneurial venture. Most of the may not be successful in this category due to lack of training and exposure.

Ten Steps to Become an Entrepreneur

Bruce Cameron, in his book Getting Started, writes that businesses don't just happen, and that you should assess first whether you should venture out on your own, He recommends that you follow these ten steps in trying to make it on your own:

Assess Yourself

Are you able to sacrifice enough, have you got self-responsibility and finances to commit?

Get Your Personal Finances in Order

Get rid of personal debt and protect yourself against the unexpected first, if you can't, delay starting your own business.

Identify Your Skills

Stick to what you know best. List all your skills and Interests and assess which you can use to successfully run a business.

Research the Market

Is there a need for that type of business' See if you can establish a need for your product or service before committing yourself to it.

Draw up a Business Plan

Before you start your business, you need to be able to predict whether you'll make a profit or not, A business plan will help you do this.

What are Your Resources?

Check what are at your disposal and what you need to get. This Includes financial, skills, equipment and raw materials.

Draw up a Financial Plan

In the early stages, you need cash to keep going, Otherwise you cut costs, reduce services and thus lose sales. Make sure your financial plan can tide you over.

Business Ownership Structure

Choosing one of the four possible structures for owning your business has far--reaching influences on your taxes and legal liability choose carefully.

Enterprise Choices

How should you start your business? From scratch, or buy an existing business? Or should you buy into an existing business or a franchise?

Revisit Your Start-Up Plans

Everything you do in starting up your business, you need to measure up against your predictions and expectations in your original business plan test all aspects and readjust your plan if needed. All other categories of entrepreneurs are of self explanatory in nature and hence not discussed.

Summary

Thus this lesson vividly explains to you the basic concepts of entrepreneurship, its need and scope. Entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. Knowledge in entrepreneurship is a means to an end. In deed, what contributes knowledge in practice is largely defined by the ends, that is, by practice.

Besides, it tells you that who is an entrepreneur what are the qualities of successful entrepreneur, different classification of entrepreneur. Finally it highlights the principles and significance of innovating character of an entrepreneur.

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Lesson 1.2 - Entrepreneurial Environment
Learning Objectives

Having gone through this lesson, you may be able to:

Understand the need for knowing about environment

Appreciate classification of prevailing business environment

Analyse the factors influencing entrepreneurial environment

Introduction

"Suitable Environment and intuition in grasping the essential facts promotes entrepreneurship"—Schumpter

Entrepreneurial venture of any sort/nature is being influenced by complex and varying mixture of financial, institutional, cultural and personality factors. Economic system and other conditions in the environment determine the success of commercial venture. Environment refers to the totality of all factors which are external and beyond the control of the business enterprise. It determines how entrepreneurship control and manage the unit. The entrepreneurial performance of an enterprise is influenced by the value system of the society, the rules and regulations made by the government, the monetary policies of the capital market, foreign investments etc. If environment changes there will be a change in the entrepreneurial performance also. Thus, the healthy environment promotes the entrepreneurship in a larger scale by facilitating the business operations thereby contributing to the growth of the unit.

Classification of Environment

Environmental factors are mostly dynamic in nature except few factors which are of static nature. Mostly these factors can be conceptualized and quantified. Sometimes they could be mentioned only in qualitative terms.

On the basis of it's variability character with reference to point of time, environment may be past, present and future.

On the basis of decision making situation it may be classified into Market and Non-Market environment. If the business decisions of a business unit are influenced by the market factors such as, demand, supply, competition, price etc. the environment is said to be market environment. On the other hand, when the Government, Law and Social customs and Conventions dominate entrepreneurial decisions it is said to be Non-market environment.

Environment may be grouped in to two, viz, Eco-nomic and Non-Economic environment. Environment formed by the economic fac-tors like fiscal policy, indus-trial policy, physical control of price-income, the eco-nomic system that operates, the stage of economic devel-opment refers to economic environment.

Then the non-eco-nomic environment refers to social, political, legal, edu-cational and cultural factors pertaining to business oper-ations.

Thus, the different facets of entrepreneurial en-vironment on the basis of factors which form that situ-ation is depicted in the fol-lowing telescopic view of the Facets of Entrepreneurial Environment.

Environmental Factors

It is true that the entrepreneurs must have come from diverse economic, social and geographical backgrounds which interlace influence entrepreneurial spirits. This will enhance the entrepreneurial performance. The various factors which influences the entrepreneurship may be categorized into two, viz, Internal and External environment factors.

Internal Factors

The internal environmental factors are mainly the environment in which entrepreneurs are born and brought up and work. Internal factors are those which will stimulate the entrepreneurs from within to take up entrepreneurial venture. Some of them are:

Strong desire of entrepreneurs to do something independently in life.

Technical know-how or manufacturing experiences acquired by them.

Business experience in the same or related line.

Family background including size, type and economic status of family.

Occupational origins of the entrepreneurs. .

Factors are the main springs of action in entrepreneurs. In order to satisfy their strong desire to do something independently in life, highly motivated persons take a plunge in to industrial activity' regardless of any other considerations. But, many a time it is the: compulsion rather than the ambition that leads the man to success. The reasons that might have compelled the entrepreneurs in putting them on the road to industry are: The internal

Various other internal environmental factors that facilitate the emergence of entrepreneurship are:

Success stories of entrepreneurs

Previous experience in manufacturing

Previous employment in industry

Property inherited

Property acquired

Encouragement of family members

Encouragement of friends and relatives

Acquire or inherited technical and professional skill

External Environment

The success of entrepreneurship in a region at any point of time depends on the very many external environmental factors. These factors influence the entrepreneurial operations and ultimately determine the effectiveness of entrepreneurial performance also. These environmental factors can be grouped into:

Economic Environment

The different economic environmental factors which influence/ inhibit the entrepreneurship are: Structure of the economy, Industrial Policy, Agricultural" Policy, Growth pattern of National income, G.D.P., Savings and capital formation in the country. Besides that, Balance of trade and balance of payments, trade and tariff policy etc.

Legal Environment

Entrepreneur should know what the prevailing legal environment is by knowing the latest position in legal enactments relating to various aspects of entrepreneurial venture. Such

as formation of the unit, collaboration, foreign exchange, industrial dispute, labour management, social security benefits, consumer protection etc.

Political Environment

The working political system in a country influences the entrepreneurial growth by designing and implementing various policy matters pertaining to promotion of entrepreneurship. Hence entrepreneurs and industrialists should have representatives on various government bodies at all levels of policy formulation and planning.

Socio-Cultural Environment

In the modem days a suitable entrepreneurial culture must be created by developing healthy work environment and modem attitudes towards work giving social recognition etc. These factors will give psychological stimulus which in turn promotes innovation, inspiration, ethics and values which are very essential for a successful entrepreneurs.

The external environmental factors are:

Financial assistance from institutional sources.

Accommodation in industrial estates.

Provision of consultancy to services on technical

Market and financial aspects.

Provision of subsides of different kinds.

Arranging the institutional support for marketing the products/ services.

Attitude of the Government to help new units.

Encouraging the co-ordination between larger and smaller firms.

Providing necessary infrastructural facilities continuously.

External environment determine the entrepreneurship in many occasions. Hence presence of conducive business environmental climate is imperative for entrepreneurship growth. External environment facilitates various functional areas of business enterprise thereby promote entrepreneurship.

The various factors that impede the growth entrepreneurship arose mainly due to external environment. Some of them are:

Changes in governmental policy

Political instability or hostile government attitude

Improper co-ordination among different government agencies. Undue delay and corruption in giving concurrences for various purposes

Poor-infrastructural facilities such as supply of power, materials, finance etc.

Rise in cost of inputs.

Unfavourable market fluctuations etc.

Summary

Understanding the business environment and its components are very much essential for an entrepreneur. Environmental aspects are not of static in nature and hence watching the changes in the environment is immensely essential especially for the budding entrepreneurs. Thus, developing a healthy environment is a pre-requisite for growth of entrepreneurship.

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Lesson 1.3 - Enterpreneurial Culture

Learning Objectives

Having gone through this lesson one could understand the following.

the need for developing entrepreneurial culture

the various aspects of entrepreneurial culture

the process of nurturing culture

the counseling and follow up process

Entrepreneurial education prevailing in India.

Problems of entrepreneurship development in India.

How to become successful entrepreneur?

Introduction

Entrepreneurial culture implies a set of values, norms and traits that are conducive to the growth of entrepreneurship. It is the corporate culture that focuses on the emergence of new opportunities, the means of capitalizing of them, and the creation of the structure appropriate for pursuing them. Entrepreneurial culture should be differentiated from administrative culture. Administrative culture is the corporate culture which focuses on existing opportunities, organizational structures and control procedures. An ideal administrator would ask such questions as "what resources do I control? What structure determines our organisation's relationship to its market? How can I minimize the impact of others on my ability to perform? What opportunity is appropriate?" On the contrary an ideal entrepreneur would ask very different questions such as 'Where is the opportunity? How do I capitalize on It? What resources do I need? How do I gain control over them? What structure is best?".

According to Stevenson and Gumpert companies must often contain both entrepreneurial and administrative cultures because they consist of both entrepreneurial and established units. There two dimension of conflicting cultures. In the first dimension entrepreneurial manager will be driven by 'perception of opportunity'. They experience pressures such as diminishing opportunities, changes in consumer economics, political rules, social values and the technology they can not understand. On the other hand the administrative managers are driven by controlled resources. The pressures upon them include social contacts with colleagues and subordinates, performance measures, planning systems and cycles.

"Every generation needs a new revolution", was Thomas Jefferson's conclusion toward the end of his long life. His contemporary, Goethe, the great German poet, though an archconservative,- voiced the same sentiment. Institutions, systems, policies eventually outlive themselves, as do products, processes and services, " Revolutions", as we have learned since Jefferson's days, are not the remedy. They cannot be predicted, directed, or controlled. They bring to power the wrong people. Worst of all their results - predictably - are the exl1ct opposite of their promises. The most lasting legacy of the French Revolution was the tightening of the very fetters of pre - Revolutionary France: the subjection of the whole country to an uncontrolled and uncontrollable bureaucracy, and the centralization in Parts of all political, intellectual, artistic, and economic life. The main consequences of the Russian

Revolution were new serfdom for the tillers of the land, an omnipotent secret police, and a rigid corrupt, stifling bureaucracy -the very features of the czarist regime against which Russian liberals and revolutionaries had protested most loudly and with most justification. And the same must be said of Mao's macabre "Great Cultural Revolution".

Indeed, we now know that "revolution" is a delusion, the pervasive delusion of the nineteenth country, but today perhaps the most discredited of its myths. We now know that "revolution" is not achievement and the new dawn. It results from senile decay, from the bankruptcy of ideas and institutions, from failure of self-renewal.

Innovation and entrepreneurship are thus needed in society as much as in the economy, in public-service institutions as much as in businesses. It is precisely because innovation and entrepreneurship are not "root and branch" but "one step at a tune, a product here, a policy there, a public service provider; because they are not planned but focused on this opportunity and that need; because they are tentative and will disappear if they do not produce the expected and needed results; because, in other words, they are pragmatic rather than dogmatic and modest rather than grandiose that- they promise to keep any society, economy, industry, public service, or business flexible and self-renewing. They achieve what Jefferson hoped to achieve through revolution in every generation, and they do so without bloodshed, civil war, or concentration camps, without economic catastrophe, but with purpose, with direction and under control.

What we need is an entrepreneurial society in which innovation and entrepreneurship are normal, steady, and continuous. Just as management has become the specific organ of all contemporary institutions. and the integrating organ of our society of organizations, so innovation and entrepreneurship have to become an integral life-sustaining activity in our organizations, our economy, our society.

The New Tasks

The prerequisite for an entrepreneurial culture is a massive reorientation in policies and attitudes, and above all, in priorities. We need to encourage habits of flexibility, of continuous learning, and of acceptance of change as normal and as opportunity - for institutions as well as for individuals.

Tax policy is one area - important both for its impact on behaviour and as a symbol of society's values and priorities. What is needed in an entrepreneurial society is a tax system that encourages moving capital from yesterday into tomorrow rather than one that, like our present one, prevents and penalizes it.

Just as important as tax and fiscal policies that encourage entrepreneurship - or at least do not penalize it - is protection of the new venture against the growing burden of governmental regulations, restrictions, reports, and paperwork.

The Individual in Entrepreneurial Society

In an entrepreneurial society individuals face a tremendous challenge, a challenge they need to exploit as an opportunity, the need for continuous learning and relearning.

One implication of this is that individuals will increasingly have to take responsibility for their own continuous learning and relearning, for their own self - development and for their own careers. They can no longer assume that what they have learned as children and youngster. will be the " foundation" for the rest of their lives. It will be the "launching pad" --the place to take off from rather than the place to build on and to rest on.

An entrepreneurial society challenges habits and assumptions of schooling and learning. Educations will have to accept that ~ schooling is not for the young only and that the greatest challenge but also the greatest opportunity - for the school is the continuing relearning of already highly schooled adults.

Counseling Entrepreneurs and Follow -up

Introduction

Counseling is a' process of initiating and reinforcing a helping relationship to enable planned growth of the client at his own. Sometimes help and counseling are used inter changeably. Though they are entirely different concepts.

Management Counseling

Management counseling for entrepreneurial development may be understood as a 'counseling process for the institutions to promote the entrepreneurs in the given locality'. It encompasses broad counseling activities, by the institutions focused on the counseling approach for the development of entrepreneurs.

Objectives of management counseling depend on the nature and level of client. Since the client is entrepreneur the objective may be examined as follows:

To understand the entrepreneurs', nature of background, per- sonality, knowledge and skills etc.

To understand the entrepreneurial environment in which he operates.

To diagnose the problems of the entrepreneurs in the pre-investment and post investment stage.

To diagnose the clients' potentialities to initiate and handle the enterprise successfully.

To enable the client explore this commitment towards his own goal and action plan for enterprise building.

Nature of Counseling

Counseling can be both of directive and non directive in nature. The non-directive counseling is largely client oriented where counselor listens and records what he listens and uses the information he gets to help dispel anxieties. He does not discipline client in order to control him. Instead the approach is non-paternalistic and counselee centered. As a matter of

act counseling for entrepreneurs has largely to be of non directive nature. This avoids over dependence of entrepreneurs on agencies.

In essence, the non directive approach in counseling is designed to provide opportunity for the counselee to work through his problems to his own satisfaction without being given advice or guidance.

Now the question arises as to what kind of counseling is required for the entrepreneurs.

The entrepreneur develops an understanding about himself.

The entrepreneur develops an understanding about the environment

The entrepreneur sets directions for his growth in the context of the above.

The entrepreneur develops of a plan of action, and implements it at his "Own.

The entrepreneur learns to review it periodically along with his counselor.

The entrepreneur sees his won strength and weakness and attributes. Failure or success to himself and reduces dependency on the institutions.

One of the pre-requisites of a good entrepreneur counseling is a good preparation for it. Preparation on the part of the counselor and the counselee involves investment in terms of time and thinking. If either of them is not prepared to invest in preparation for helping each other and learning from feedback, the counseling is likely to be futile. The counselor should prepare himself well for making counseling effective. However, the agencies (especially the voluntary agencies which are engaged in entrepreneurship programme need to have a continuous counseling mechanism.

Entrepreneurial Education

Entrepreneurial education for younger generation towards setting up small business concerns, their self development and the development of industrial economy assumes prime focus.

Entrepreneur and Entrepreneurship

'Entrepreneur' – a French word means "to undertake". This word in the early 16th century referred to men leading military expeditions. Entrepreneur as an English word has now come into usage denoting men who venture into any new field for economic gains. Entrepreneur is one who germinates a concept, takes initiative, seizes opportunity, bears risk,

promotes organisation and manages it to achieve set goals. Entrepreneurs are those who are optimistic, resourceful, and persistent with a work orientation, goal setters and achievers.

Entrepreneurship is the mental urge to take risk in face of uncertainties and intuition and capacity of forecasting things which prove true. It involves a break with the past, a wider perception of economic activities and a creative and innovative response to environment.

It is a well known fact that entrepreneurship is one of the prime factors of production. The development of the productivity of this factor of production is significant in improving productivity. Thus education for the development of this quality is an important requirement.

For a young entrepreneur to start with in his new venture, small business would augur a healthy beginning.

Small Business

A small business can be defined as one that is independently owned and operated, is indominant in its field and meets a variety of size standards. This is mostly a localized business so as to satisfy the felt needs of the community.

Small business offers an opportunity to the youth to excel in their field. “Small is beautiful” goes a saying. The objective of small business is to utilize the available resources for balanced regional and local development. This requires interest and risk taking abilities. The raw materials are plenty and investment is negligible in a small business concern. The only hurdle is the lack of proper management.

Small industry is the nation’s leading employer and forms the backbone of the economy. There is, therefore, an urgent need to highlight the advantages of small industries and a need to develop the concept of entrepreneurship through education.

The small size of a business provides some unique competitive advantages over large size business. Small firms are often the ones to offer innovations, new concepts and new products in the market place. Innovative behaviour is also found in the marketing strategies of these firms. The provision of product or service at cheaper cost due to less overhead costs is another advantage. Due to small size of some of the economies economic and organizational factors dictate that an industry consists essentially of small firms.

Defining MSME in India

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

Manufacturing Enterprises- The enterprises engaged in manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951). The manufacturing enterprise is *defined in terms of investment in Plant & Machinery***.**

Service Enterprises- The enterprises engaged in providing or rendering of services and are *defined in terms of investment in equipment.*

Definition of MSMEs in India

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified, vide S.O. 1642(E) dtd.29-09-2006 are

	Manufacturing enterprises (Investment in plant and machinery)	**Services enterprises** (Only investment in equipment)
Micro	Up to Rs 25 lakhs	Up to Rs 10 lakhs
Small	From Rs 25 lakhs to Rs 5 Crores	From Rs 10 lakhs to Rs 2 Crores
Medium	From Rs 5 Crores to Rs 10 Crores	From Rs 2 Crores to Rs 5 Crores

Your case is likely to be a micro or small tourism service enterprise. Though, you could also develop a proposal for manufacturing goods and offering them directly to visitors (like curios, handicrafts, bottled water, etc.) or supplying goods to tourism businesses such as paper napkins, packaging material, furniture, etc. What ever be the case, you must be able to figure out which class of operations are you in.

Indian Scenario for Entrepreneurs

An entrepreneur is fundamentally a conceiver, designer and innovator. It is he who thinks of a scheme or project. He thinks of the various factors of production and designs their proportions for the final shape and output of the organization. While doing so he is conscious of the risks that he is undertaking. He has to keep himself abreast of all the developments that are taking place in the world. An ill informed person can never be a successful entrepreneur. Knowledge and success are, in a sense, hand maids. A risk taking person is bound to be creative, for creativity and innovativeness are twins. It is a competitive world and even slight variations can impart newness to a product. Even packing a material is a matter of enterprise.

Modern thinkers have defined entrepreneurship differently, according to their own perceptions. Hoselitz defines ‘entrepreneur’ as person who brings labour and material at the certain price and sells the resultant product at a contracted price. Obviously, labour gets a prominent place in his definition and so does marketing.

Entrepreneurial Functions

The main functions that an entrepreneur has to perform can be deduced from the various definitions of the of the word ‘entrepreneur’ that have been given. These can be summed up as below:

He takes the risks attendant on uncertain situations.

He foresees opportunities and seizes them.

He collects and organizes the various factors of production.

He prepares the inventory for the unit and procures the same, with an eye on quality and economy.

He co-ordinates the various factors of production smoothly.

He ensures maintenance of cordial relations with labour.

He is conscious of competition around and adjusts accordingly.

He deals with external organizations and agencies.

He manages human resources within the unit.

He manages the suppliers.

He manages the customers.

He manages finance

He manages production, keeping an eye and demand and quality.

He acquires, and oversees, the assemblage of the unit.

He ensures the quality of the product.

He innovates production techniques.

He oversees that the good will of the units is enhanced.

Problems Encountered by Entrepreneurs

There are a host of risks and problems that an entrepreneur has to encounter. It is impossible to think of any business enterprise which is not based with problems. An entrepreneur, while embarking on an economic venture, knows that his path is going to be strewn with the thorns of problems. He is bound to face a host of them. There are problems galore in all fields of his activity. There will be his personal problems. There will be managerial problems. There will be problems from the external world. Has to learn to enjoy those problems is the guarantee of success.

The changes might one too quick to withstand. A story might be worth narrating here. A person was rushing towards his home. Someone intervened and wanted to know the reason of the hurry. The person said, ‘I have purchased a saree for my wife and I want to hand it over to her before the fashion for this particular brand of saree changes’. Change and newness are in the air and pose their own variety of problems.

Future Prospects for the Entrepreneurs

There is a shift in India from an agricultural to industrial economy even as India is moving from the state of a developing economy to attain the status of a developed economy. This state of transformation of the national economy has its own potentialities and challenges for the entrepreneurs. It is for them to seze the opportunity by both the horns. They have a crucial role to play in the present scenario. The government has initiated the process of liberalization of economy since 1991. In this changed economic environment all support and incentives are available to the entrepreneurs who care and are perceptive and dynamic.

The government has set up institutions for guiding and supporting the entrepreneurs. The infrastructure is being developed. Every state in the country is eager to have large scale industrialization. In fact, the chief ministers of states are vying with one another to attract industrial entrepreneurs. Their eeffort is global. There is a growing awareness of the need for industrialization and this itself should motivate the potential entrepreneurs into action. They have to convert their potential energy into a kinetic one now. Action and movement are the needs of the hour, and the hour won't wait for those who are indifferent to it.

The government is providing all support to the entrepreneurs. The country's future is tied up with its industrialization, for which modern techniques and technologies are needed. All that is outdated must be jettisoned overboard and the Indian entrepreneurs must work with theirnative genius to scale dizzy industrial heights. That is what the country needs and expects from its entrepreneurs.

Entrepreneurs – True Heroes

Entrepreneur is a person who initiates an economic activity and manages the same successfully. The myth that entrepreneurs are born is no more valid because it has been proved that entrepreneurship can be developed through scientific methods and training. But most important of allis self-motivation on their part. Three buzzwords for entrepreneurship are: self-motivation, courage and self-marketing.

For developing skills for successful entrepreneurship, here are some tried steps:

Preparedness: Prepare yourself fully before meeting anyone or before embarking upon a project or a proposal, collect all relevant information, put it in a proper sequence, rehearse and then present yourself.

Communication Skills

Practice makes a man (or a woman) perfect. Attend some professional course on personality development with focus on communication skills-both oral and written. Introspect and take steps to learn from each event. Continuous improvement should be your watchword.

Positive Attitude

Success in one's own enterprise, as in all areas of life, is 90 per cent attitude and 10 per cent aptitude. Positive attitude is bound to lead to success.

Be Involved

Both in online communities and off-line in your local community, know what's going on and what's current in your field. Be a part of what's going on and network with others in your field.

Expect no's

Realise no's are no personal. In business, as per perhaps nowhere else, the law of average works. Every 'no' gets you closer to a 'yes'.

Be a Goal Setter

Set your goal, write it down, set a target for achieving the goal, and mobilize all your energies and resources to accomplish the same each day, each week and each month. Little is ever accomplished without definite goals.

Be Organised

Each evening, list all the things you want to get done the following day. That gives you an organised approach to each day. As each task is finished, mark it off your list. It is amazing how much one gets done when one works with a 'things' to-do' list in an organised way.

Be Enthusiastic

Enthusiasm is the 'fuel' that entrepreneurs run on. Enthusiasm is the 'fuel' that entrepreneurs run on. Enthusiam generates its own energy. Energy and good health are synonymous with busy, happy people who are 'achievers'—more so for successful entrepreneurs.

Get into entrepreneurship and see yourself growing up and up in
life.

Perspectives

Entrepreneurship promotion has to be more and more trade specific, or product / process-specific, based on its relevance in different regions. From the generalist approach, entrepreneurship development institutions have to switch over to a more specialized role for training individual entrepreneurs or for developing / equipping teams of entrepreneurs to take up ventures in groups in specialized product lines. The movement depends on the extent of technology obsorption and adaptation in small enterprises.

Non-governmental organizations (NGOs) should be involved in a massive way to supplement the efforts of the government in a sustained manner to improve the living conditions of the vast rural masses through income generating enterprises. NGOs associated with these programmes have distinct advantages of being close to people in the planning and implementation of programmes. Support from the apex development financing institutions such as SIDBI and NABARD, needs to be mobilized for this purpose. Developing professional talent in NGOs through sustained training and follow up efforts is necessary.

The tempo not only needs to be sustained and improved upon; it also needs to be reoriented to meet the challenges of the competitive environment in the small enterprise sector. Emerging opportunities need to be focused upon. Entrepreneurs have to keep in mind the growing complexities, and challenges of the future.

The motivation that makes a small enterprise to be competitive in its use of human and material resources needs to be brought out through the positive strategy of collective efforts of people, productivity and profits. The capability to rise above competition drives entrepreneurs to search for new ways of doing things, new markets to operate, and new products to offer. In the current day context, no entrepreneur can escape competition. In this context, successful entrepreneurial behaviour implies constant and continuous quest to be different, to perform better, and to exert more to ensure excellence. A successful entrepreneur must learn and strive to set his/her own standard of excellence. Entrepreneurs may be able to assess their strengths and weaknesses; become capable of maximising strengths and making their weaknesses redundant. Thus, the major thrust of motivation needs to undergo change from stimulatory to sustaining and growth orientation.

Entrepreneurship development efforts need to be focused on economically lower and less privileged population, who constitute a much wider population group. The spread of education, particularly vocational education, skill development, technological upgradation and managerial training and development of greater awareness of economic and social opportunities, apart from the creation of better infrastructural facilities in the environment in which they placed, will enable economically weaker sections utilize entrepreneurial opportunities, relevant to their environment, much faster.

Emphasis in future periods cannot be limited to manufacturing type of enterprises alone. Service sector, agro and other rural micro enterprises will demand considerable attention because of the vast potential for dispersed pattern of development. Promotion of entrepreneurship in rural areas, tribal areas and backward regions has to be stressed to a great extent.

Challenges Facing the MSME sector, Tests in Growth and Survival of Enterprises, and Future Directions

In the context of liberalization, privatization, and globalization, small scale entrepreneurs are facing challenges. They have also experienced wider opportunities created

by liberalization. Entrepreneurs have expressed appreciation for the opening up of the economy by creating a competitive, market friendly environment and facilitating the process of integration with the global trends. The emerging forces of globalization, deregulation and technology transfer as well as increasing and shifting demands of consumers are changing the contours of the MSME sector.

At the Entrepreneurship Development Institute of India (EDII), Ahemedabad, in a publication titled The Seven Business Crises, crisis stages of an enterprise in its life cycle are detailed as follows:

The Starting Crises
The Cash Crisis
The Delegation Crisis
The Leadership Crisis
The Finance Crisis
The Prosperity Crisis
The Management-succession Crisis
Another stage is planning for survival and growth

All the eight stages have been portrayed with live examples in the EDII publication and also released as video cassettes. These will be of great relevance for existing and prospective entrepreneurs.

The themes suggested for deliberation in seminars such as the following, speak of the dynamics of entrepreneurship strategies:

New venture creation / development
Technology and entrepreneurship
Business growth strategies
Entrepreneurship and economic development
Entrepreneurship education, training and research

Suggestions

The following suggestions may be considered for intensifying entrepreneurship development efforts in future:

It is important to impart a combination of skill orientation and entrepreneurial competency for group of persons with diverse backgrounds.

Promotion of industries, services and businesses in rural development programmes including specific programmes for women by adopting group approach.

Other self employment programmes including programmes for persons with science and technology background.

Involvement of NGOs, and professional and vocational training institutions.

Promoting interaction between academic / training institutions, and industry in the small scale, tiny and micro enterprise sectors.

Promoting group entrepreneurship or partnership compared to concentrating only on proprietary type of enterprises.

Promoting marketing entrepreneurship and development of marketing organizations at the state level.

Marketing support is to be extended to trained entrepreneurs in a sustained manner.

Entrepreneurship should be an integral part of school education at plus two level, and in various professional, vocational and other advanced courses at different levels.

A structured orientation programme on Entrepreneurship Development of two to three days duration can be the first step to orient final year engineering / technology students, and final year post graduate students in science and technology. This capsule could be followed up by a regular EDP of six weeks duration to those short listed students who show potential to be transformed as entrepreneurs.

Adequate and timely credit being a key factor in catelysing entrepreneurship, it is highly essential to involve bank managers
MSME specialists from banks at the pre-training, training and post-training phases of entrepreneurship development programmes. Interface with bankers and promotional officers will enthuse prospective as well as existing entrepreneurs. Similarly, use of live cases from banks of MSME units financed or is under consideration, and experiences of first generation entrepreneurs will make the training programme quite lively and instructive.

Innovation and Entrepreneurship

Learning Objectives

This lesson clearly explains to you the following:

need for innovation and entrepreneurship

principles of innovation process

types of innovations

factors inducing innovative skills.

Introduction

Entrepreneurial innovation deals with the introduction of new concept, a new way of doing things, or a new approach. Innovation can also be in terms of new technology, new techniques of production, new sources and types of raw materials, novel machinery, new labour saving devices, new packaging techniques and packaging materials, new way of advertising, product development, new application of existing product and even developing a new market.

Innovation refers to the process of bringing new, problem solving ideas into use. The ideas may be related to reorganizing, cutting costs, establishing new budgeting system, improving communication etc., Comprehensively speaking, innovation involves generation, acceptance and implementation of new ideas, processes, products or services. It embodies the capacity to change or adapt. Innovations are new ways to achieve tasks. Innovations respond to the needs and constraints and conditions. Inventors and researchers put effort in solving burning problems; these efforts lead to innovations. For example, labour shortages led to mechanized equipment, Drought conditions led to improved irrigation, Energy crises led to higher efficiency cars, Farmers' cooperatives were established during periods of excessive low farm prices, Environmental regulations trigger cleaner technologies, A tax on carbon will lead to improved stoves and power plants.

Innovation is the essential for entrepreneurial motivation. Innovation gives money. Innovation must be knowledge based. Scientific knowledge is the base for innovation. However, innovation is also due to the convergence of different kinds of innovation.

Sometimes, there is a need to combine the innovative works of similar other scientists. Though their works were different in intent and content, by combing their works together, there is a chance for developing new products.

An innovative entrepreneur becomes a market leader. His market share and profitability increase till the competitors catch that innovation and imitate it by bringing out "me-too" product in the market. The in-novative entrepreneur hits the market with another innovation to |retain his market leadership and high profit margin. The history of entre-preneurial development itself is a reflection of the innovativeness of entrepreneurs.

Peter Drucker saying that innovation is an important tool of an entrepreneur, as he perceives new opportunity; convert this opportunity into attractive projects and become market leader. Innovation is the conversion of new knowledge into new products and services. Innovation is about creating value and increasing productivity, and therefore, making your business grow.

Entrepreneurial strategy is neither hunch nor gamble. It is not service but judgment. "What we need is an entrepreneurial society in which innovation and entrepreneurship are normal, steady, and continuous. Just as management has become the specific organ of all contemporary institutions, and the integrating agent of our society of organisation, so innovation and entrepreneurship have to become an integral life-sustaining activity in our organisations, our economy, our society.

Meaning of Innovations

According to Drucker, the principles of innovation require a few' dos' and a few' don'ts'. He also enumerates what he calls "conditions".

The 'Dos',

Purposeful, systematic innovation begins with an analysis of opportunities. It begins with thinking through what he has called the sources of innovative principles.

Innovation is both conceptional and perceptual. The second imperative of innovation is to go out to look, to ask, and to' listen.

An innovation to be effective has to be simple and it has to be focused. It should do only one thing, otherwise it confuses. If it is not simple, it won't work.

Effective innovations start small. They are not grandiose. They try to do one specific thing.

A successful innovation aims at leadership.

The 'Don'ts'.

The first is simply not to try to be clever. Innovations have to be handled by ordinary human beings. In other words, anything too clever, whether in design or in execution, is almost bound to fail.

Do not diversity. innovations 'that stray from a core are likely to become diffuse. They remain ideas and do not become innovations.

Finally, do not try to innovate for the future. Innovate for the present.

According to Drucker, three conditions have to be fulfilled, All three are obvious, but often go disregarded:

Innovation is work. It requires knowledge. It often requires greatingnuity. When all is said, and done, innovation. becomes hard, focused on purposeful work, making very great demands on diligence, on persistence, and on commitment.

To succeed, innovation must build on their strengths.

Finally, innovation always has to be close to the market, focused on the market, indeed market-driven.

Product Innovation

Product / service innovation is the result of bringing to life a new way to solve customer's problem – through a new product of service development – that benefits both the customer and sponsoring company.

Examples

Mechanical – tractors, cars;

Chemical and biological – pesticides seed variety;

Managerial-IPM, extra pay for work, overtime;

Institutional-water users' association, patents, banks, stock market, conservation districts, monks.

Process Innovation

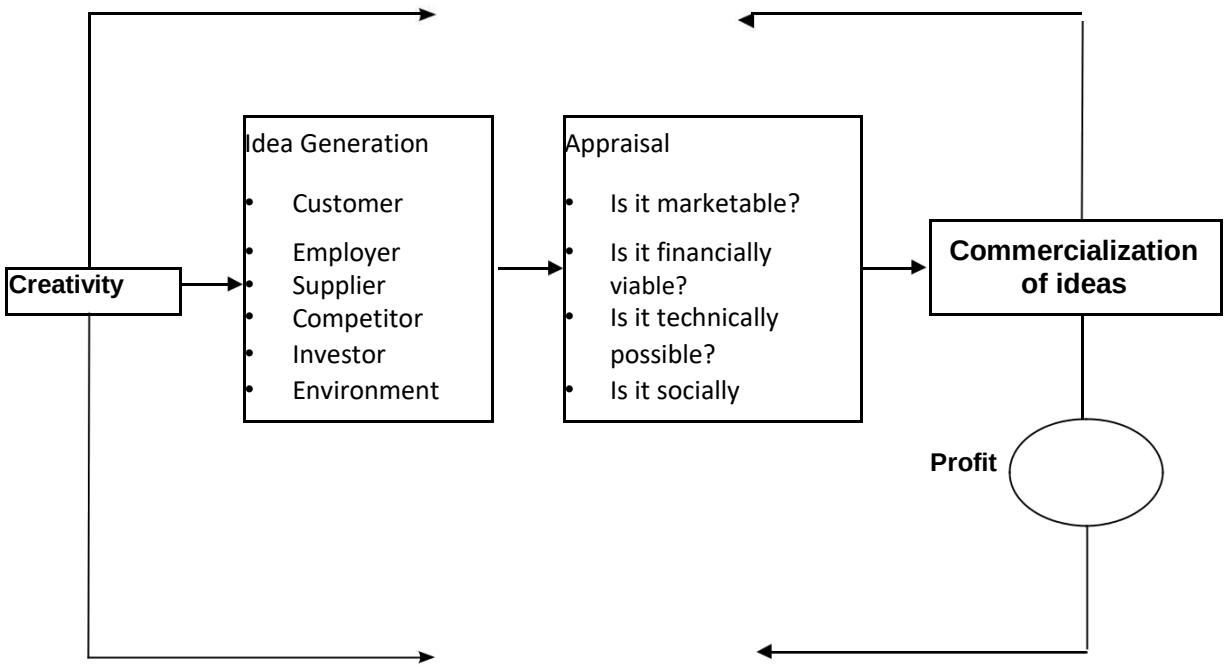
Process innovation increases bottom line profitability, reduces costs, improves efficiency and raises productivity, and increases employees' job satisfaction. It also delivers enhanced value of the product or service to customers. For manufacturing companies, process innovation includes such things as integrating new production methods and technologies that lead to improved efficiency, quality, or time-to-market and services that are sold with those products. For service companies, process innovations enable them to introduce "front office" customer service improvement and add on services.

Business Innovation

Business innovation involves a wide spectrum of original concepts, including development of new business models, organizational innovation, business application of technology and communications, new management techniques, environmental efficiency, new forms of stakeholder participation, transport and finance.

These consist of new business models, new management models, new approaches to value chain management, new approaches to information, idea and knowledge management, new forms of strategic partnerships, new forms fo selling and customer service.

Entrepreneurship



Innovation Process

Organizational Innovation

More efficient innovation metric, associated with organizational innovation, reflects the recognition that new ways of organizing work in areas such as work force management through employee empowerment, new people partnership, or positive action to involve all employees in order to make organization of work a collective resource for innovation, knowledge management, value chain management, customer partnership, distribution, finance, manufacturing can improve competitiveness. Organizational innovation also includes business model innovation.

Technology Innovation

Technological innovation covers innovation derived from research and development of technology, that is independent of product and service initiative.

Marketing Innovation

Innovative distribution and customer service methods are an inseparable part. It helps a company to develop new value added services, enter new markets, and create new market segments / categories, new distribution methods, and new forms of customer service and customer partnership. Marketing Communication can also be more effective with Innovative Strategies.

Strategy Innovation

It consists of reinvented strategy of the enterprise, innovative corporate growth strategies, improved competitive strategies. It is about challenging existing methods of industry of creating value for customer in order to meet newly emerging customer needs, add additional value, and create new markets and new customer groups for the sponsoring company.

Implementation of all these innovations can improves the utilization of human capital.

Summary

Thus this lesson explains the need for entrepreneurial culture, the behaviour of the individual in the entrepreneurial society and how to develop culture? Besides it tells upon the significance of counseling and follow up process for developing an ideal entrepreneurial culture. Innovation is one of the significant attributes of entrepreneurship. But successful entrepreneurship involves other key elements like risk taking ability, values, ethics, organizational skill, operational excellence. To convert the creative ideas into profitable business, entrepreneurs use such quality as motivation, dynamism, adaptability, knowledge, tactfulness, dreaming, instinct, will-power, aptitude, pride, flexibility, self-confidence, and common sense. Besides this, entrepreneurship flourishes in innovative work culture,

competitive infrastructure, and entrepreneurial managers under the leadership of innovative environment.

Self Assessment Questions

Who is an entrepreneur? Distinguish between entrepreneur and enterprise.

Discuss the main functions of an entrepreneur

What are the characteristic of an entrepreneur?

What are the qualities of an entrepreneur?

Distinguish between entrepreneur and entrepreneurship.

Explain the main sources of innovation.

Describe the principles of innovation.

What are the major steps to become an entrepreneur?

Explain the different types of entrepreneurs

10. Explain the importance of environmental factors in influencing entrepreneurship.

11. Discuss the factors affecting entrepreneurial development.

12. Discuss the various factors influencing the entrepreneurs internally.

13. Define entrepreneurial culture and differentiate from administrative culture.

14. Explain the significance of entrepreneurial society.

15. What is entrepreneurial counselling? Explain its significance. 16. Discuss the role of entrepreneurial clinics.

17. Give a brief note about the need for entrepreneurial education 18. List out the problems of entrepreneurship development in India. 19. How to become successful entrepreneur?

20. Discuss the future prospects for entrepreneurship in India. 21. Define the term ‘innovation’. Explain its need.

22. Discuss the principles of innovation process 23. Explain the different types of innovation.

CASE STUDY

Anushka and Devyani were two students studying a beautician course in a city college. They hailed from Madurai a metropolitan city and Uttangadi an upcoming village near by Madurai respectively. They became good friends during the course of their education. Anushka hailed from an upper middle class family with her parents in influential Government jobs. Devyani hailed from a lower middle class familywith her parents depending on farming their livelihood. They both shared a long ambition to become successful in their life working independently.

They both were intelligent and were creative compared to others and both were intent on starting a beauty clinic in their own respective places. Anushka was against the idea of Devyani starting her clinic in a village. She felt that people in a village will have a lesser

awareness towards beauty and moreover their ability to pay was in her village a question mark. She had a strong view that villagers always depended on nature for their beauty needs and they would have reluctance for the use of these artificial beauty techniques. But Devyani was strong in her view that she will succeed as a beautician in her own village rather than any other place.

Identify what factors might influence the choice of location.

Entrepreneurial Motivation

Entrepreneurship Development Process

Institutions for Entrepreneurial Development

Role of SSI Sector

MBA – 4th Semester

MBA403: INTERNATIONAL BUSINESS ENVIRONMENT

Instructor: Madhabendra Sinha, Dept of MBA, Raiganj University

(The note is constructed on the basis of different collections from several sources including websites. In case of any difficulty to understand one may contact the instructor. Useful disclaimers apply)

2. International Business Theories: Introduction – Mercantilism - Absolute Advantage Theory - Comparative Cost Theory - Hecksher-Ohlin Theory - Product Cycle Theory.

Internal and International Business:

By internal or domestic business are meant transactions taking place within the geographical boundaries of a nation or region. It is also known as intra-regional or home business. International business, on the other hand, is business among different countries or business across political frontiers.

International business, thus, refers to the exchange of goods and services between one country or region and another. It is also sometimes known as "inter-regional" or "foreign" business. Briefly, business between one nation and another is called "international" business, and business within the territory (political boundary) of a nation "internal" business.

For all practical purposes, business or exchange of goods between two or more countries is called "international" or "foreign" business.

International business takes place on account of many reasons such as:

1. Human wants and countries' resources do not totally coincide. Hence, there tends to be interdependence on a large scale.
2. Factor endowments in different countries differ.
3. Technological advancement of different countries differs. Thus, some countries are better placed in one kind of production and some others superior in some other kind of production.
4. Labour and entrepreneurial skills differ in different countries.
5. Factors of production are highly immobile between countries.

In short, international business is the outcome of territorial division of labour and specialisation in the countries of the world.

The following are the distinguishing features of international business:

(1) Immobility of Factors:

The degree of immobility of factors like labour and capital is generally greater between countries than within a country. Immigration laws, citizenship, qualifications, etc. often restrict the international mobility of labour.

International capital flows are prohibited or severely limited by different governments. Consequently, the economic significance of such mobility of factors tends to equality within but not between countries. For instance, wages may be equal in Mumbai and Pune but not in Bombay and London.

According to Harrod, it thus follows that domestic business consists largely of exchange of goods between producers who enjoy similar standards of life, whereas international business consists of exchange of goods between producers enjoying widely differing standards. Evidently, the principles which determine the course and nature of internal and international business are bound to be different in some respects at least.

In this context, it may be pointed out that the price of a commodity in the country where it is produced tends to equal its cost of production.

The reason is that if in an industry the price is higher than its cost, resources will flow into it from other industries, output will increase and the price will fall until it is equal to the cost of production. Conversely, resources will flow out of the industry, output will decline, the price will go up and ultimately equal the cost of production.

But, as among different countries, resources are comparatively immobile; hence, there is no automatic influence equalising price and costs. Therefore, there may be permanent difference between the cost of production of a commodity.
In one country and the price obtained in a different country for it. For instance, the price of tea in India must, in the long run, be equal to its cost of production in India. But in the U.K., the price of Indian tea may be permanently higher than its cost of production in India. In this way, international business differs from home business.

(2) Heterogeneous Markets:
In the international economy, world markets lack homogeneity on account of differences in climate, language, preferences, habit, customs, weights and measures, etc. The behaviour of international buyers in each case would, therefore, be different.

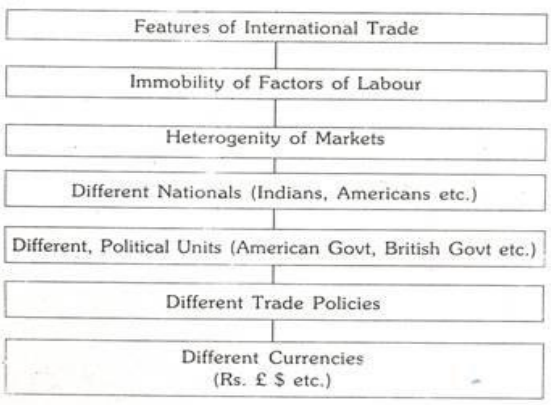
(3) Different National Groups:
International business takes place between differently cohered groups. The socio-economic environment differs greatly among different nations.

(4) Different Political Units:
International business is a phenomenon which occurs amongst different political units.

(5) Different National Policies and Government Intervention:
Economic and political policies differ from one country to another. Policies pertaining to business, commerce, export and import, taxation, etc., also differ widely among countries though they are more or less uniform within the country. Tariff policy, import quota system, subsidies and other controls adopted by governments interfere with the course of normal business between one country and another.

(6) Different Currencies:
Another notable feature of international business is that it involves the use of different types of currencies. So, each country has its own policy in regard to exchange rates and foreign exchange.
For the sake of brevity, features of international business are mentioned in Chart 1.

Chart I



Mercantilism

The dominant system of economic thought that prevailed in Europe from 16th to 18th Century was Mercantilism. It was known by different names in different countries. In England it was called as commercial system or mercantile system because it emphasised the importance of commerce and free business. It was also known as "Restrictive system" because its practical policies consisted of numerous restrictions and regulations on commerce.

In France it was known as "Colbertism" after the name of Colbert, the Finance Minister of Louie the XIV. In Germany and Austria it was called "Cameralism". It was also known as "Bullionism" because of the importance given to gold and silver.

Mercantilist thinkers did not form a group, advocating a fixed line of thought and policy. They were businessmen, merchants, administrators, in different countries. They left a number of pamphlets and papers regarding economic problems. Only the later economists have analysed their writings and found certain uniformity in their ideas and policies and have grouped them together as mercantilists.

Mercantilism prevailed not only in England, France, Germany and Italy, but also in countries like Russia, Spain and Scotland. It adopted itself to the changing circumstances. Alexander Grey observed that "It had three hundred years run and so it coloured the thought and still more the actions of every country in Europe". Haney says, "Mercantilism comprises the economic views that prevailed among the European statesmen from 16th to 18th century".

Adam Smith's Theory of Absolute advantage

Adam Smith, the Scottish economist observed some drawbacks of existing Mercantilism Theory of International business and he proposed a new theory i.e. Absolute Cost Advantage theory of International business to remove drawbacks and to increase business between countries.

Drawbacks of Mercantilism theory

Adam Smith observed following drawbacks of Mercantilism and Neo-mercantlism theory.

1. Mercantilism weakens a country.

2. Restriction on Free Business decreases country's wealth

Adam Smith's Theory (1776):

1. This theory is based on principle of division of labour

(Division of labour: the separation of a work process into a number of tasks, with each task performed by a separate person or group of persons.)

2. Free business among countries can increase a country's wealth.

3. Free business enables a country to provide a variety of goods and services to its people by specializing in the production of some goods and services and importing others.

4. Every country should specialize in producing those products at the cost less than that of other countries and exchange these products with other products produced cheaply by other countries.

5. When one country produces one product at less cost and another country produces another product at less cost, both can exchange required quantity and can enjoy benefit of absolute cost advantage.

The theory of absolute advantage was put forward by Adam Smith who argued that different countries enjoyed absolute advantage in the production of some goods which formed the basis of business between the countries.

Consider Table 23.1 where man-hours required producing a unit of wheat or cloth in the U.S.A. and India are given:

Table 23.1 : Man-hours required to produce one unit of wheat and cloth

	U.S.A.	*India*
Wheat	3	10
Cloth	6	4

It will be seen from the above table that to produce one unit of wheat in the U.S.A. 3 man-hours and in India 10 man-hours are required. On the other hand, to produce one unit of cloth, in the U.S.A. 6 man-hours and in India 4 man-hours are required. Thus the U.S.A. can produce wheat more efficiently (that is, at a lower cost), while India can produce cloth more efficiently.

To put it in other words, while the U.S.A. has an absolute advantage in the production of wheat, India has an absolute advantage in the production of cloth. Adam Smith showed that the two countries would benefit and world output will increase if the two countries specialize in the production of goods in which they have absolute advantage and business with each other. How such specialization and business would lead to gain in output and would be mutually beneficial for the two countries is shown in Table 23.2.

Table 23.2. Gain in output when labour resources are transferred

	U.S.A	*India*	*World Output*
Gain in Wheat	+ 2 Wheat	–1 Wheat	+ 1 Wheat
Gain Cloth	– 1 cloth	+ 2.5 Cloth	+ 1.5 Cloth

Suppose to specialize in the production of Wheat, the U.S.A. withdraws 6 man-hours from the production of cloth and devote them to the production of wheat, it will lose 1 unit of cloth and gain 2 units of wheat.

Similarly, to specialize in the production of cloth if India withdraws 10 hours of labour from wheat and use them for the production of cloth, it will lose one unit of wheat but gain 2.5 units of cloth.

In this way, transfer of labour resources to the goods in which they have absolute advantage, will result in the net gain of one unit of wheat and 2.5 units of cloth. The gain in output can be distributed between the two countries through voluntary exchange.

It is also clear from above that without any increase in productive resources international division of labour and business leads to the expansion in world output and wealth. According to Adam Smith, given perfect competition in the industries and free business between the countries, it is the market forces that would ensure specialization and business on the lines of absolute advantage.

Recardian Theory of Comparative Advantage

The classical theory of international business is popularly known as the Theory of Comparative Costs or Advantage. It was formulated by David Ricardo in 1815. The classical approach, in terms of comparative cost advantage, as presented by Ricardo, basically seeks to explain how and why countries gain by trading. The idea of comparative costs advantage is drawn in view of deficiencies observed by Ricardo in Adam Smith's principles of absolute cost advantage in explaining territorial specialisation as a basis for international business. Being dissatisfied with the application of classical labour theory of value in the case of foreign business, Ricardo developed a theory of comparative cost advantage to explain the basis of international business as under:

Ricardo's Theorem:
Ricardo stated a theorem that, other things being equal, a country tends to specialise in and export those commodities in the production of which it has maximum comparative cost advantage or minimum comparative disadvantage. Similarly, the country's imports will be of goods having relatively less comparative cost advantage or greater disadvantage.

To explain his theory of comparative cost advantage, Ricardo constructed a two-country, two-commodity, but one-factor model with the following assumptions:

1. Labour is the only productive factor.
2. Costs of production are measured in terms of the labour units involved.
3. Labour is perfectly mobile within a country but immobile internationally.
4. Labour is homogeneous.
5. There is unrestricted or free business.
6. There are constant returns to scale.
7. There is full employment equilibrium.
8. There is perfect competition.

Under these assumptions, let us assume that there are two countries A and B and two goods X and Y to be produced.

Now, to illustrate and elucidate comparative cost difference, let us take some hypothetical data and examine them as follows.

Absolute Cost Difference:
As Adam Smith pointed out, if there is an absolute cost difference, a country will specialise in the production of a commodity having an absolute advantage (see Table 1).

Table 1 Cost of Production in Labour Units:

	Country A	**Country B**	**Comparative Cost Ratio**
Commodity X	10	20	10/20 = 0.5
Commodity Y	20	10	20/10 = 2
Domestic Exchange Ratio:	1 X = 1/2 Y	1 X = 2 Y	

It follows that country A has an absolute advantage over B in the production of X while B has an absolute advantage in producing Y. As such, when business takes place, A specialises in X and exports its surplus to B and B specialises in У and exports its surplus to A.

Equal Cost Difference:
Ricardo argues that if there is equal cost difference, it is not advantageous for business and specialisation for any country in consideration (see Table 2).

Table 2 Cost of Production in Labour Units:

	Country A	**Country B**	**Comparative Cost Ratio**
Commodity X	10	15	10 /15 = 0.66
Commodity Y	20	30	20/30 = 0.66
Domestic Exchange Ratio:	1 X = 1/2 Y	1 X = 1/2 Y	

On account of equal cost difference, the comparative cost ratio is the same for both the countries, so there is no reason for undertaking specialisation. Hence, the business between two countries will not take place.

Comparative Cost Difference:
Ricardo emphasised that under all conditions, it, is the comparative cost advantage which lies at the root of specialisation and business (see Table 3).

Table 3 Cost of Production in Labour Units:

	Country A	Country B	Comparative Cost Ratio
Commodity X	10	15	10/ 15 = 0.66
Commodity Y	20	25	20/25 = 0.80 25
Domestic Exchange Ratio	IX = 0.5Y	IX = 0.6Y	

It will be seen that country A has an absolute cost advantage in both the commodities X and Y. However, A possesses a comparative cost advantage in producing X. For, comparatively, country A's labour cost involved in producing 1 unit of X is only 66 per cent of B's labour cost involved in producing X, as against that of 80 per cent in the case of Y.

On the other hand, country B has least comparative disadvantage in production of Y, though she has absolute cost disadvantage in both X and Y.

It should be noted that, to know the comparative advantage, we have to compare the ratio of the costs of production of one commodity in both countries (i.e., 10/15 in the case of X in our example) with the ratio of the cost of producing the other commodity in both countries (i.e., 20/25 in the case of У in our example). To state in algebraic terms:

If in country A, the labour cost of commodity X is Xa and that of У is Ya, and in B, it is Xb and Yb respectively, then absolute differences in cost can be expressed as:

$Xa/Xb < 1 < Ya/Yb$

(Which means that country A has an absolute advantage over country B in commodity X and country B has over A in commodity У). And, comparative differences in costs are expressed as:

$Xa/Xb < Ya/Yb < 1$

(Which implies that country A possesses an absolute advantage over B in both X and (Y, but it has more comparative advantage in X than in Y). If, however, there is an equal cost difference, i.e., $Xa/Xb = Ya/Yb$ will be no international business between the two countries.

In our illustration, since country A has comparative cost advantage in commodity X, as per Ricardo s theorem, this country should tend to specialise in X and export its surplus to country B in exchange for У (i.e., import of У from B). Correspondingly, since country B has

least cost disadvantage in producing У, she should specialise in У and export its surplus to A and import X.

Gain Attributes of International Business:

It further follows that when countries A and B enter into business, both will gain. In the absence of business, domestically in country A, IX = 0.5У. Now, if after business, assuming the terms of business to be IX — 1Y, country A gains 0.5 unit more. Similarly, in country B, IX = 0.6 У domestically, after business, its gain is 0.4Y.

In short, "each country can consume more by trading than in isolation with a given amount of resources. Indeed, the relative gains of the two countries will be conditioned by the terms of business and one is likely to gain proportionately more than the other but it is definite that both will gain.

In fact, the principle of comparative costs shows that it is possible for both the countries to gain from business, even if one of them is more efficient than the other in all lines of production.

The theory implies that comparative costs are different in different countries because the abundance of factors which may be necessary for the production of each commodity does not bear the same relation to the demand for each commodity in different countries.

Thus, specialisation based on comparative cost advantage clearly represents a gain to the trading countries in so far as it enables more of each variety of goods to be produced cheaply by utilising the abundant factors fully in the country concerned and to obtain relatively cheaper goods through mutual international exchange.

Ricardo's theory pleads the case for free business. He stresses that free-business is the pre-requisite of gains and improvement of world's welfare. Free business "by increasing the general mass of production diffuses general benefit and binds together by one common tie of interest and intercourse, the universal society of nations throughout the civilised world."

To sum up, what goods will be exchanged in international business is the main question solved by Ricardo's theory of comparative costs. The theory is lucidly summarised by Kindle-Berger as follows:

"The basis for business, so far as supply is concerned, is found in differences in comparative costs. One country may be more efficient than another, as measured by factor inputs per unit of output, in the production of every possible commodity, but so long as it is not equally more efficient in every commodity, a basis for business exists. It will pay the country to produce more of those goods in which it is relatively more efficient and to export these in return for goods in which its absolute advantage is least."

Theory of Comparative Costs

The principle of comparative costs is based on the differences in production costs of similar commodities in different countries. Production costs differ in countries because of geographical division of labour and specialisation in production. Due to differences in climate, natural resources, geographical situation and efficiency of labour, a country can produce one commodity at a lower cost than the other.

In this way, each country specialises in the production of that commodity in which its comparative cost of production is the least. Therefore, when a country enters into business with some other country, it will export those commodities in which its comparative production costs are less, and will import those commodities in which its comparative production costs are high.
This is the basis of international business, according to Ricardo. It follows that each country will specialise in the production of those commodities in which it has greater comparative advantage or least comparative disadvantage. Thus a country will export those commodities in which its comparative advantage is the greatest, and import those commodities in which its comparative disadvantage is the least.

Assumptions of the Theory:
The Ricardian doctrine of comparative advantage is based on the following assumptions:
(1) There are only two countries, say A and B.
(2) They produce the same two commodities, X and Y.
(3) Tastes are similar in both countries.
(4) Labour is the only factor of production.
(5) All labour units are homogeneous.
(6) The supply of labour is unchanged.
(7) Prices of the two commodities are determined by labour cost, i.e.. the number of labour-units employed to produce each.
(8) Commodities are produced under the law of constant costs or returns.
(9) Business between the two countries takes place on the basis of the barter system.
(10) Technological knowledge is unchanged.
(11) Factors of production are perfectly mobile within each country but are perfectly immobile between the two countries.
(12) There is free business between the two countries, there being no business barriers or restrictions in the movement of commodities.
(13) No transport costs are involved in carrying business between the two countries.
(14) All factors of production are fully employed in both the countries.
(15) The international market is perfect so that the exchange ratio for the two commodities is the same.

Cost Differences:
Given these assumptions, the theory of comparative costs is explained by taking three types of differences in costs: absolute, equal and comparative.

(1) Absolute Differences in Costs:

There may be absolute differences in costs when one country produces a commodity at an absolute lower cost of production than the other.

The absolute cost differences are illustrated in Table 78.1

Table 78.1: Absolute Differences in Costs:

Country	**Commodity-X**	**Commodity- Y**
A	10	5
B	5	10

The table reveals that country A can produce 10 X or 5F with one unit of labour and country B can produce 5X or 10K with one unit of labour.

In this case, country A has an absolute advantage in the production of X (for 10 X is greater than 5 X), and country B has an absolute advantage in the production of Y (for 10 Y is greater than 5 Y).

This can be expressed as 10X of A/5X of B > 1 > 5 Y of A/10Y of B.

Business between the two countries will benefit both, as shown in Table 78.2.

Country	**Production before Business**	**Production after Business**	**Gains from Business**
Commodity	(1)	(2)	(2-1)
	X Y	X Y	X Y
A	10 5	20 —	+ 10 -5
B	5 10	— 20	-5 +10
Total Production	15 15	20 20	+5 +5

Table 78.2 reveals that before business both countries produce only 15 units arch of the two commodities by applying one labour-unit on each commodity. If A were to specialise in producing commodity X and use both units of labour on it, its total production will be 20 units of X. Similarly, if B were to specialise in the production of Y alone, its total production will be 20 units of Y. The combined gain to both countries from business will be 5 units of X and Y.

Figure 78.1 illustrates absolute differences in costs with the help of production possibility curves. $Y_A X_A$ is the production possibility curve of country A which shows that it can produce either OX_A of commodity X or OY_A of commodity Y. Similarly, country B can produce OX_B of commodity X or $0Y_B$ of commodity Y. The figure also reveals that A has an absolute advantage in the production of commodity X ($OX_A > OX_B$), and country B has an absolute advantage in the production of commodity Y($OY_B > OY_A$).

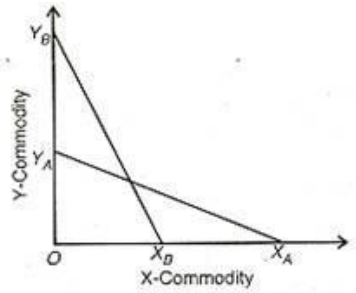


FIG. 78.1

Adam Smith based his theory of international business on absolute differences in costs between two countries. But this basis of business is not realistic because we find that there are many underdeveloped countries which do not possess absolute advantage in the production of commodities, and yet they have business relations with other countries. Ricardo, therefore, emphasised comparative differences in costs.

(2) Equal Differences in Costs:

Equal differences in cost arise when two commodities are produced in both countries at the same cost difference. Suppose country A can produce 10 X or 5 Y and country B can produce 8 X or 4 Y.

In this case, with one unit of labour country A can produce either 10 X or 5 Y, and the cost ratio between A" and Y is 2:1. In country B, one unit of labour can produce either 8X or 4Y, and the cost ratio between the two commodities is 2: 1.

Thus the cost of producing X in terms of Y is the same in both countries. This can be expressed as

10X of A/ 8X of B = 5Y of A/4Yof B = 1

When cost differences are equal, no country stands to gain from business. Hence international business is not possible.

(3) Comparative Differences in Costs:

Comparative differences in cost occur when one country has an absolute advantage in the production of both commodities, but a comparative advantage in the production of one commodity than in the other. The comparative cost differences are illustrated in Table 78.3.

Table 78.3 Comparative Differences in costs:

Country	**Commodity – X**	**Commodity – Y**
A	10	10
B	6	8

The table reveals that country A can produce 10X or 10Y, and country B can produce 6X or 8X.

In this case, country A has an absolute advantage in the production of both X and Y, but a comparative advantage in the production of X. Country B is at an absolute disadvantage in the production of both commodities but its least comparative disadvantage is in the production of Y. This can be seen from the fact that before business the domestic cost ratio of X and Y in country A is 10: 10 (or 1:1), while in country B, it is 6:8 (or 3:4). If they were to enter into business, country A's advantage over country B in the production of commodity X

is 10X of A / 6X of B or 5/3, and in the production of Y, it is 10Y of A/8Y of B or 5/4. Since 5/3 is greater than 5/4, A's advantage is greater in the production of commodity X, A will find cheaper to import commodity Y from country B in exchange for its X.

Similarly, we can know the comparative disadvantage of country B in the production of both commodities. In the case of commodity X, country B's position is 6X of B/10X of A or 3/5. In the case of commodity Y, it is 8Y of B/10Y of A or 4/5.

Since 4/5 is greater than 3/5, B has least comparative disadvantage in the production of Y. It will business its Y for X of country A.

In other words, country A has a comparative advantage in the production of commodity A', and B has least comparative disadvantage in the production of Y. Thus, business is beneficial for both countries. The comparative advantage position of both countries is illustrated in Figure 78.2.

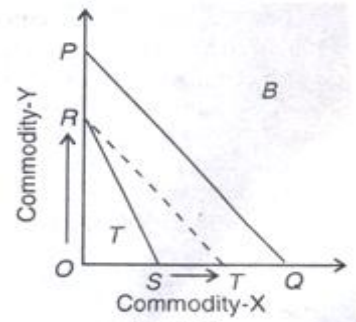


Fig. 78.2

Let PQ be the production possibility curve of country A and RS of country B. The curve PQ shows that country A has an absolute advantage in the production of both commodities X and Y respectively over country B. This is due to the fact that the production possibility curves RS of country B lies below the production possibility curve PQ of country A. Country B produces OR units of commodity Y and OS units of commodity X.

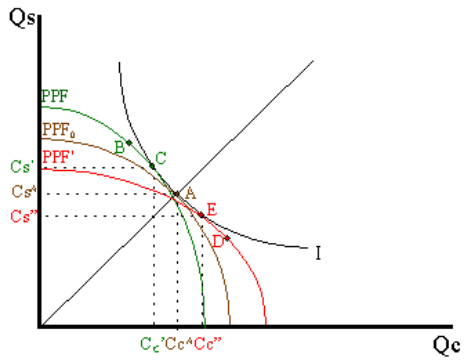
To show comparative advantage position in business, draw a line RT parallel to line PQ. Now country A has a comparative advantage in the production of commodity X only because it exports OT (> OS) units relatively to country B. On the other hand, country B has a comparative disadvantage in the production of commodity Y only. This is because, if it gives up resources required to produce OS units of X, it would be able to produce commodity Y by an amount less than OR. Thus country A has a comparative advantage in the production of commodity X, and country B has a comparative disadvantage in the production of commodity Y.

Heckscher-Ohlin Theorem

Heckscher-Ohlin theorem states that a country which is capital-abundant will export the capital-intensive good. Likewise, the country which is labour-abundant will export the labour-intensive good. Each country exports that good which it produces relatively better than the other country. In this model a country's advantage in production arises solely from its relative factor abundance.

The H-O model assumes that the two countries (US and France) have identical technologies, meaning they have the same production functions available to produce steel and clothing. The

model also assumes that the aggregate preferences are the same across countries. The only difference that exists between the two countries in the model is a difference in resource endowments. We assume that the US has relatively more capital per worker in the aggregate than does France. This means that the US is capital-abundant compared to France. Similarly, France, by implication, has more workers per unit of capital in the aggregate and thus is labour-abundant compared to the US. We also assume that steel production is capital-intensive and clothing production is labour-intensive.



The difference in resource endowments is sufficient to generate different PPFs in the two countries such that equilibrium price ratios would differ in autarky. To see why, imagine first that the two countries are identical in every respect. This means they would have the same PPF (depicted as the brown PPF0 in the adjoining figure), the same set of aggregate indifference curves and the same autarky equilibrium. Given the assumption about aggregate preferences, that is U = CCCS, the indifference curve, I, will intersect the countrys' PPFs at point A, where the absolute value of the slope of the tangent line (not drawn), (PC/PS), is equal to the slope of the ray from the origin through point A. The slope is given by CSA/CCA. In other words, the autarky price ratio in each country will be given by,

$$\left(\frac{P_C}{P_S}\right)^0_{Aut} = \frac{C_S^A}{C_C^A}$$

Next suppose that labour and capital are shifted between the two countries. Suppose labour is moved from the US to France while capital is moved from France to the US. This will have two effects. First, the US will now have more capital and less labour, France will have more labour and less capital than initially. This implies that K/L> K*/L*, or that the US is capital-abundant and France is labour-abundant. Secondly, the two countries PPFs will shift. To show how, we apply the Rybczynski theorem.

The US experiences an increase in K and a decrease in L. Both changes will cause an increase in output of the good that uses capital intensively (i.e. steel) and a decrease in output of the other good (clothing). The Rybczynski theorem is derived assuming that output prices remain constant. Thus if prices did remain constant, production would shift from point A to B in the diagram and the US PPF would shift from the brown PPF0 to the green PPF.

Using the new PPF we can deduce what the US production point and price ratio would be in autarky given the increase in the capital stock and decline in labour stock. Consumption could not occur at point B since, 1) the slope of the PPF at B is the same as the slope at A since the Rybczynski theorem was used to identify it, and 2) homothetic preferences implies that the indifference curve passing through A must have a steeper slope since it lies along a steeper ray from the origin.

Thus, to find the autarky production point we simply find the indifference curve which is tangent to the US PPF. This occurs at point C on the new US PPF along the original indifference curve, I. (Note: the PPF was conveniently shifted so that the same indifference curve could be used. Such an outcome is not necessary but does make the graph less cluttered.) The negative of the slope of the PPF at C is given by the ratio of quantities CS'/CC' . Since CS'/CC' > CSA/CCA, it follows that the new US price ratio will exceed the one prevailing before the capital and labour shift, i.e., PC/PS > (PC/PS)0. In other words, the autarky price of clothing is higher in the US after it experiences the inflow of capital and outflow of labour.

France experiences an increase in L and a decrease in K. These changes will cause an increase in output of the labour-intensive good (i.e. clothing) and a decrease in output of the capital-intensive good (steel). If price were to remain constant, production would shift from point A to D in the diagram and the French PPF would shift from the brown PPF0 to the red PPF*.

Using the new PPF we can deduce the French production point and price ratio in autarky, given the increase in the capital stock and decline in labour stock. Consumption could not occur at point D since homothetic preferences implies that the indifference curve passing through D must have a flatter slope since it lies along a flatter ray from the origin. Thus to find the autarky production point we simply find the indifference curve which is tangent to the French PPF. This occurs at point E on the new French PPF along the original indifference curve, I. (As before, the PPF was conveniently shifted so that the same indifference curve could be used.) The negative of the slope of the PPF at C is given by the ratio of quantities CS''/CC'', Since CS'/CC'' < CSA/CCA, it follows that the new French price ratio will be less than the one prevailing before the capital and labour shift, i.e., PC*/PS* < (PC/PS)0. This means that the autarky price of clothing is lower in France after it experiences the inflow of labour and outflow of capital.

All of the above implies that as one country becomes labour-abundant and the other capital-abundant, it causes a deviation in their autarky price ratios. The country with relatively more labour (France) is able to supply relatively more of the labour-intensive good (clothing) which in turn reduces the price of clothing in autarky relative to the price of steel. The US with relatively more capital can now produce more of the capital-intensive good (steel) which lowers its price in autarky relative to clothing. These two effects together imply that:

$$\left(\frac{P_C}{P_S}\right)^{US}_{Aut} > \left(\frac{P_C}{P_S}\right)^{Fr}_{Aut}$$

Any difference in autarky prices between the US and France is sufficient to induce profit-seeking firms to business. The higher price of clothing in the US (in terms of steel) will induce firms in France to export clothing to the US to take advantage of the higher price. The

higher price of steel in France (in terms of clothing) will induce US steel firms to export steel to France. Thus, the US, abundant in capital relative to France, exports steel, the capital-intensive good. France, abundant in labour relative to the US, exports clothing, the labour-intensive good. This is the Heckscher-Ohlin theorem. Each country exports the good intensive in the country's abundant factor.

Product Life Cycle Theory

Product life cycle is the historical study of (sales of) the product. It includes when it was introduced; when it was getting rapid acceptance; when it was on the peak of its position; when it started falling from the peak; and when it disappeared. Product passes through certain stages during its life span.

In fact, no product is capable to satisfy needs and wants of consumers for an unlimited period of time. As such, its sales and profits are subject to differ over time. The life of product can be determined by its capacity to meet market expectations. It lasts or exists as long as it satisfies its users.

The concept that studies the life span of product in relation to the demand is popularly known as product life cycle. We use 'PLC' as an abbreviation of Product Life Cycle. The concept PLC is important in marketing theory and practice. It is interesting to note that we can study the PLC only when product completes its entire life.

No doubt, we can detect particular stage product life cycle on the basis of sales and profits. Product life cycle should be studied with reference to the broad picture of demand-technology life cycle. It provides insight into the competitive dynamics. It is a ready-made or expert prescription regarding what a marketing manager should do in different stages of the PLC. However, the concept may be misleading if it is not carefully understood and followed.

The term 'product life cycle can be defined as under:

1. Philip Kotler:"The product life cycle is an attempt to recognize distinct stages in sales history of the product."

2. We can define PLC as: PLC concerns with the study of the degree of product acceptance by the market over time. It includes major rises and falls of sales during its life.

3. Product life cycle states relationship between sales volume and profits. So, we can define the term as: Product life cycle concerns with the study of relationship between sales volume and profits in relation to time through entire span of the product's life.

4. More clearly and comprehensively, we can define it as: Product life cycle is the historical study of (sales of) the product. It includes when it was introduced; when it was getting rapid acceptance; when it was on the peak of its position; when it started falling from the peak; and when it disappeared. Product passes through certain stages during its life span.

Typically, it passes through four stages as listed below:

1. Introduction:

The product is introduced in the market.

2. Growth:

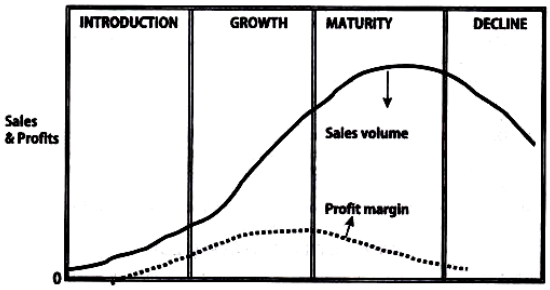
The product is getting rapid acceptance and sales rise at the increasing rate.

3. Maturity (including Saturation):

Sales rise, but at the decreasing rate. Saturation is marked with stable sales.

4. Decline:

It is the stage when sales start falling.



Stages of Product Life Cycle and Time
Figure 2: Product Life Cycle

Figure 2 shows that product life cycle has "S" shape curve. It indicates an ideal state.

Assumptions:

"S" shape cure is an ideal state, and is hardly possible.

Such diagram – stages, sales curve, and profit curve- is possible only if following assumptions are fulfilled:

1. Product completes its entire life cycle. It passes through all four stages of its life.

2. Duration of each of the stages is equal or fixed.

3. There is no reintroduction of product.

4. Product passes through stages in chronological order, that is, one, two, three and likewise. There is no bypassing or overlapping of any of the stages.

Stages of Product Life Cycle:

Product life cycle comprises of four steps/stages. Each stage of product life cycle can be characterized in terms of at least four aspects – sales volume, amount of profits, level of promotional efforts and expenses, and degree of competition. Each stage demands the unique marketing strategy. Let us briefly describe each of the stages of the PLC.

Introduction Stage:

Introduction stage starts when a new product is, for the very first time, made available for purchase. Consumers are not aware of product, or they may not have general opinion and experience regarding product. Moreover, a new product has to face the existing products. So, the sales remain limited.

In the very initial stage, there is loss or negligible profit. During this period, the direct competition is almost absent. Company has not mastered production and selling problems. Price is normally high to recover/offset costs of development, production, and marketing with minimum sales. So, sales rise at gradually.

Characteristics of introduction stage include:

(i) Huge selling and promotional costs are required to increase awareness of customers.

(ii) Price is kept high to recover high development, production, and marketing costs.

(iii) Marketer has to tackle technical and production problems.

(iv) Sale is low and increasing at a lower rate.

(v) There is loss or negligible profit.

(vi) There is no competition

Growth Stage:

This is the stage of a rapid market acceptance. Due to increased awareness, the product gets positive repose from market. This stage is marked by a rapid climb in sales. Sales rise at the increasing rate. Profits follow the sales. Seller shifts his promotional attempts from “try-my-brand” to “buy-my-brand.”

Company tries to develop effective distribution network. Here, the most of production and marketing problems are mastered. Due to rise in profits, competitors are attracted. At a right time, price may be reduced to attract the price-sensitive buyers.

Company continues, even increases, its selling and promotional efforts to educate and convince the market and meet competition. At the end of growth stage, sales start increasing at decelerated rate, consequently, profits starts to decline.

Characteristics of growth stage include:

(i) Sales increase rapidly (or at increasing rate) as a result of consumer acceptance of the products.
(ii) Company can earn maximum profits.
(iii) Competitors enter the market due to attractive profits.
(iv) Price is reduced to attract more consumers.
(v) Distribution network is widened and improved.
(vi) Necessary primary changes are made in product to remove defects.
(vii) Company enters the new segments and new channels are selected.

Maturity Stage:

This stage is marked with slow down of sales growth. Sales continue to rise but at decreasing rate. Competitors have entered the market and existing products face severe competition. Sales curve is pushed downward. It is just like an inverse "U." During this stage, for certain period of time, sales remain stable. This level is called the Saturation. Profits also decline. Normally, this stage lasts longer and marketers face formidable challenges.

The stages may be divided into three phases:

i. Growth Maturity:

Sales-growth rate starts to decline.

ii. Stable Maturity:

Sales remain stable (i.e., saturation stage).

iii. Decline Maturity:

Sales now start to decline.

Marginal producers are forced to drop out the products. Those who operate formulate various strategies to extend the stage. Market, products, and marketing programme are to be modified to sustain the stage.

Characteristics of maturity stage include:

i. Sales increase at decreasing rate.

ii. Profits start to decline.

iii. Marginal competitors leave the market.

iv. Customer retention is given more emphasis.

v. Product, market, and marketing mix modifications are undertaken.

Decline Stage:

This is the last stage of product life cycle. Here, sales stat declining rapidly. Profits also start erasing. There is a minimum profit or even a little loss. Advertising and selling expenses are reduced to realize some profits. This stage is faced by only those who survived in maturity stage.

Most products obsolete as new products enter the market. All products have to face the stage earlier or later. New products start their own life cycle and replace old ones. A number of competitors withdraw from the market. Those who remain in the market prefer to drop smaller segments, make minor changes in products, and continue selling the products in profitable segments and channels.

Here, logic has its own role. Management continues with the same product with expectation that sales improve when economy improves; marketing strategy is revised expecting that competitors will leave the market; or product is improved to attract new market segments.

However, unless a strong reason exists, it is costly and risky to continue with the same products. Later on it is difficult of manage selling and promotional efforts. Marketer must check every possibility before dropping the product completely.

Characteristics of decline stage include:

i. Sales fall rapidly.
ii. Profits fall more rapidly than sales.
iii. Product modification is adopted.
iv. Gradually, the company prefers to shift resources to new products.
v. Most of sellers withdraw from the market.
vi. Promotional expenses are reduced to realize a little profit.