Economics, Management and Entrepreneurship
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Lecture - 50
Entrepreneurship - Final Words

Good morning. Welcome to the 50th and the final lecture on economics, management and entrepreneurship. Friends, if you recall we had discussed on economics subjects particularly on microeconomics and accounting, engineering economy and costing for nearly 20 hours. Then, we discussed various aspects of management for also nearly 25 hours and the last 5 hours or so we devoted particularly on how to start new businesses, how to get capital and such other things.

So in a way we have discussed various facets of entrepreneurship. In this last lecture, we shall talk about certain finer aspects of entrepreneurship. Let us see what we have to say on entrepreneurship the finer points.

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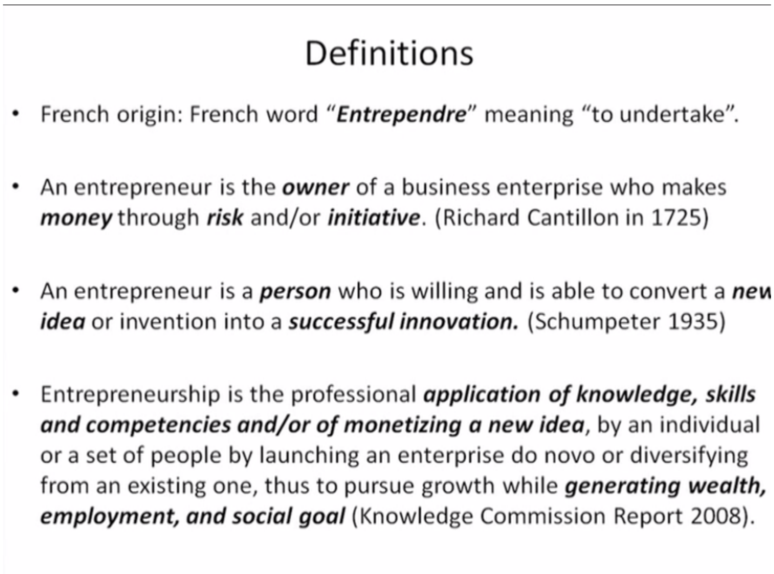

So today's lecture is entitled entrepreneurship the final words. To start with we first give certain definitions. It looks like the origin of the word entrepreneurship is a French word entrependre meaning to undertake and the first person to use this word entrepreneur or entrepreneurship is Richard Cantillon in 1725 who use the word entrepreneur to mean the owner of a business enterprise who makes money through risk and/or initiative.

So the 3 words that are critical in this definition given by Richard Cantillon is making money, taking risk by a person and with certain initiative. Later, the famous economist Schumpeter in 1935 defined the same word entrepreneur as a person who is willing and is able to convert a new idea or invention into a successful innovation. So here he gave stress to conversion of a new idea to an invention or an innovation.

The knowledge commission of India in its report in 2008 gave the following definition. Entrepreneurship is the professional application of knowledge, skills and competencies and/or of monetizing a new idea by an individual or a set of people by launching an enterprise de novo or diversifying from an existing one thus to pursue growth while generating wealth, employment and social goal.

So it is a little long definition of the word entrepreneurship but basically he talks about converting a new idea, applying it to certain innovative work for the purpose of generating wealth employment and social goal.

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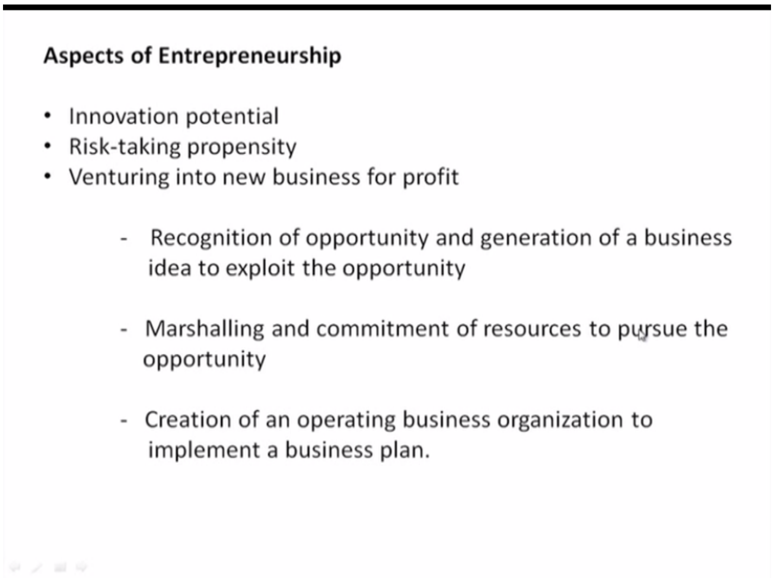

Now basically from these definitions we see that entrepreneurship deals with innovation potential, risk taking propensity and venturing into new business for making profit and this requires recognition of opportunity and generation of business idea to exploit the opportunity, marshaling and committing resources to pursue this opportunity and creating an operating business organization to implement the plan.

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Myths about Entrepreneurs

1. They are doers, not thinkers.
2. They are born, not made.
3. They are always inventors.
4. They are academic and social misfits.
5. They must fit the "profile" (checklist) of a successful entrepreneur.
6. All of them need money.
7. All they need is luck.
8. Ignorance is bliss for them (over-analysis leads to paralysis)
9. They need success but experience high failure rates.
10. They are extreme risk-takers.

Now there are certain myths about entrepreneurs. The idea that the entrepreneurs are doers, not thinkers is really a myth. That they are born and not made, it is also a myth, it is not correct. All these things are not correct but nevertheless they are prevalent ideas in today's world. They are always inventors, which is not true. They are academic and social misfits is also not true.

They must fit the profile of a successful entrepreneur is also a myth. All of them need money and luck not always true. Ignorance is bliss for them that means if somebody makes an over-analysis it leads to paralysis, that sort of an attitude is also not correct. They need success but experience high failure rates, this is also not correct and that they are extreme risk-takers is also a myth.

So these are certain myths, which are unfortunately very prevalent in our society and they should not be taken at their face value.

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Common Characteristics of Entrepreneurs

1. Total commitment, determination, and perseverance
2. Drive to achieve and grow
3. Opportunity and goal orientation
4. Taking initiative and personal responsibility
5. Persistent problem solving
6. Seeking and using feedback
7. Internal locus of control (belief in self)
8. Calculated risk taking and risk seeking
9. Tolerance for ambiguity
10. Tolerance for failure
11. Integrity and reliability
12. High energy level
13. Creativity and innovation
14. Vision
15. Self-confidence and optimism

Certain characteristics of entrepreneurs and 15 of them have been listed here. They are totally committed, determined and so perseverance. They have a drive to achieve and grow. They consider different types of opportunities and they have a goal before them. They take initiative and personal responsibility. They try to solve problems always. They seek to find solutions and they use feedback of the results to change their approach to problem solving.

They believe in themselves. They take risks and they have a tolerance for imprecision ambiguity. They have a tolerance for failure. They have high integrity and they can be reliable. They display high energy and of course they have creativity and they like to innovate. They have vision and lastly they are self-confident and optimistic. Now these are 15 common characteristics of entrepreneurs.

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Challenges of Entrepreneurship

1. **Risk**:
   - Financial, Career, Family and Social, and Psychic
2. **Stress**:
   - Loneliness, High business orientation, People-oriented, and Need to achieve
3. **Inflated Ego**:
   - Overbearing need for control, Sense of Distrust, Overriding desire for success, and Unrealistic Optimism

Now there are certain challenges entrepreneurs face. One is a risk factor. Every entrepreneur faces financial risk, career risk and even risk at the family, social and psychological level. They undergo high stress because quite often they are left to themselves the loneliness. They are completely must in their busyness and they have a need to achieve all these things, put them in high stress.

And at the same time, they have an overriding desire for success. They are highly optimistic to the extent of sometimes being unrealistic and sometimes they have a sense of distrust for others. So these are different challenges that any entrepreneur faces.

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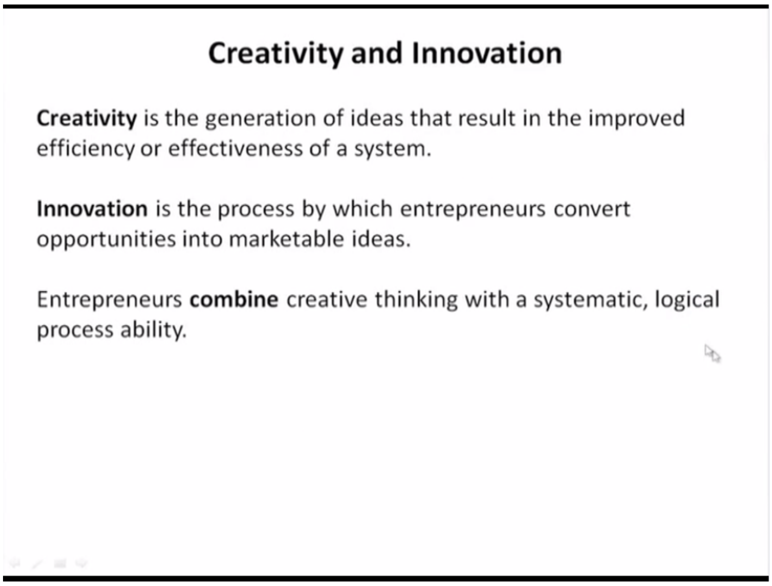

As we have told an entrepreneur has to be creative and has to be an innovator. So let us spend some time on creativity and innovation. Creativity is the generation of ideas that result in the improved efficiency or effectiveness of a system whereas innovation is the process by which entrepreneurs convert opportunities into marketable ideas.

Entrepreneurs combine the 2 that means they convert opportunities into marketable ideas and to innovations and at the same time they improve efficiency or effectiveness. They combine creativity and innovation together.

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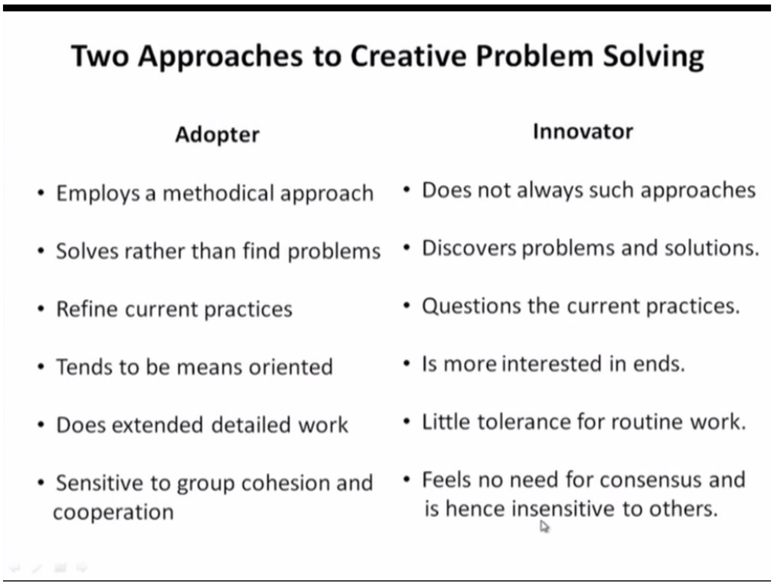

Now there are 2 approaches to creative problem solving. One that adopts the already existing approach, the other who tries to be creative and the symptoms for an adopter are a little different from those that are taken or used by an innovator. An adopter employs a methodical approach. An innovator does not always use such approaches. An adopter solves rather than find problems that means problems exist which an adopter solves.

An innovator discovers problems maybe future problems and stops them now. An adopter is concerned with refining current practices. An innovator challenges the current practices. Adopter tends to be means oriented how to do things. Innovator is more interested in what to achieve at the end. An adopter does extend detailed work whereas an innovator does not tolerate the routine work.

He wants to do something new. Adopter is very sensitive to group cohesion and cooperation but an innovator feels no need for such consensus and therefore is often insensitive to others. So here we see that an innovator is basically trying to find new ways of solving future problems and does not use the already used problems or the approaches that are being used to solve the present problems.

He always looks for something new, certain innovative way of doing things and solving problems that are not recurring in the past but also problems that can occur in the future.

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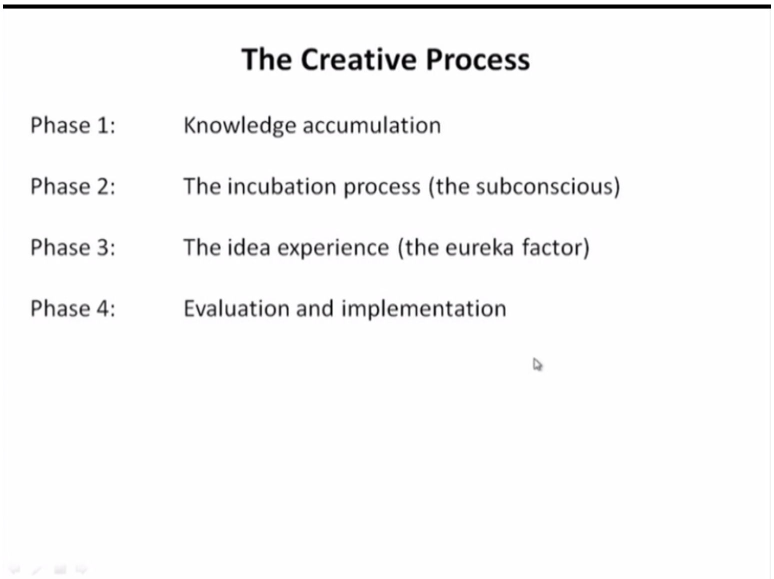

Normally, the creative process has got 4 phases. One is accumulation of knowledge, the second is assimilating that knowledge in the subconscious state on the mind, the third phase is the Eureka factor where an idea strikes and the last phase is evaluating this idea and implementing it, that is the creative process.

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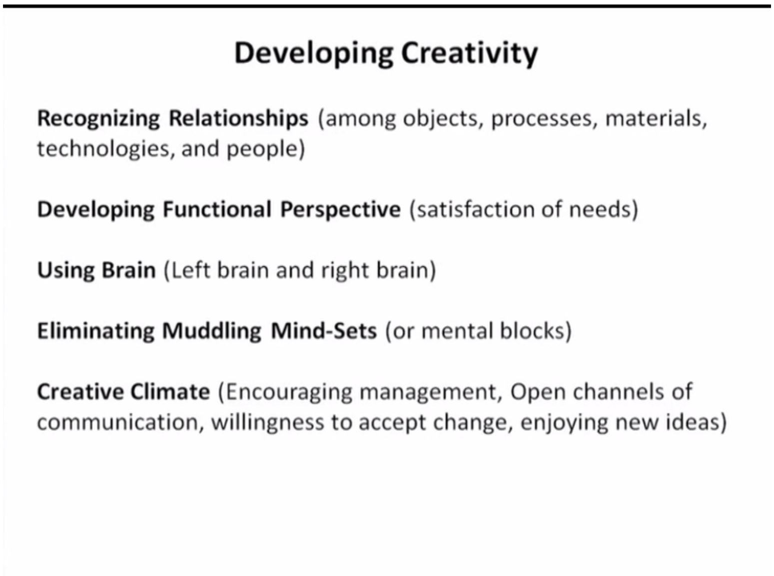

Now to actually implement or develop the creativity, there are so many approaches. One is recognized relationships among objects, among processes, among materials, technologies and people. Developing functional perspectives that means how certain needs can be satisfied. Using the facilities of the human brain, the left brain and the right brain. In the next slide, we shall discuss a little more on the aspects of left brain and right brain.

Eliminating mental blocks and developing a creative climate where management encourages creativity. There is open channel of communication, people are willing to accept change and enjoy getting and implementing new ideas. They are not averse to new ideas that is the creative climate.

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Left Brain	Right Brain
Logical Sequential Rational Analytical Objective Looks at Parts	Random Intuitive Holistic Synthesizing Subjective Looks at Wholes
Focus on logical thinking, analysis, and accuracy.	Focus on aesthetics, feeling, and creativity.

Now in the next slide we shall see how the human brain has been seen to contain 2 aspects. The left side of the human brain deals with logical, sequential, rational, analytical and objective aspects. It looks at detailed parts and it focuses on logical thinking, analysis and accuracy whereas the right brain is not so logical, it is random, intuitive, holistic, synthesizing type, subjective and it looks at wholes rather than parts, it focuses on aesthetics, feeling and creativity.

So you can see that the left brain deals with analysis more quantitative aspects, deals with data, deals with procedures, methods whereas the right brain deals with synthesis, subjective approach to problem solution and holistically talks about problems and solutions. An entrepreneur should use both the aspects of the left and the right brain.

Although, it appears an entrepreneur is more oriented towards the right brain taking subjective view of things, looking at futuristic problems, not always using methodical approaches but it is good to have a combination of both objectivity and subjectivity.

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The Innovation Process

Most innovations result from a conscious, purposeful search for new opportunities.

Innovators go out, look, ask, and listen.

They not only look at the figures but also at people's needs, values, and expectations.

Most innovations are simple and focused.

Types of Innovation

- Invention: Creation of a new product, service, or process
- Extension: Expansion of an existing product, service, or process
- Duplication (with a creative touch)
- Synthesis (to develop a new application)

Now let us talk about the innovation process. So long we were talking about creativity and different aspects of creativity. Now we discuss about the innovation process. Most innovations result from a conscious, purposeful search for new opportunities. Already, this we have expanded in the past. Innovators go out, look, ask and listen. They not only look at the figures but also at people's needs, values and expectations.

Most innovations are simple and focused. There are different types of innovation. The most elementary and the most fundamental is invention where a new product or a service or a process is created. The second type of innovation is expansion of an existing product, service or process. Third type of innovation is a duplication where you almost duplicate the idea but with a little difference with a creative touch.

And the last type of innovation is developing a new application altogether. So these are different aspects of the innovation process.

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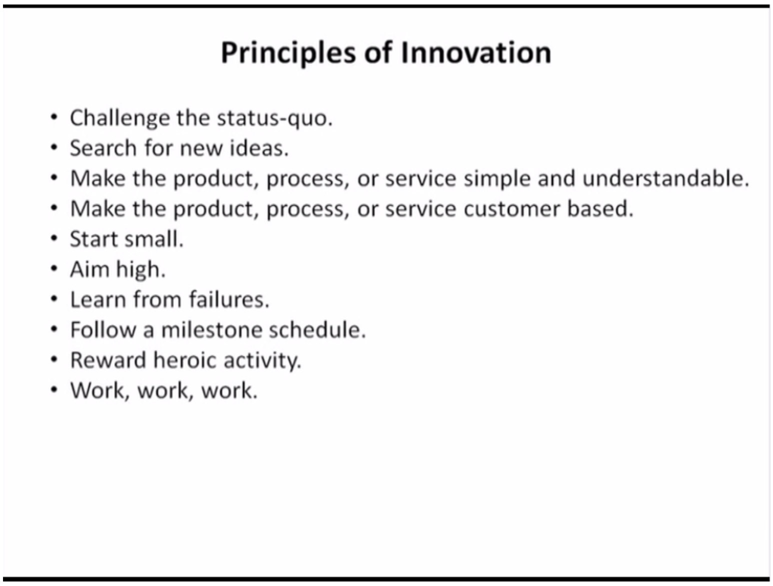

Now let us look at certain principles of innovation. What an innovator basically does we already now know. He challenges the status-quo, he searches for new ideas, he makes the product process or service, simple and understandable. He makes the product process or service customer based, he starts in a small way but ends high. Learn from failure, follows a milestone schedule, rewards heroic activity and he works and works and works.

These are different principles of innovation. So finally it is hard work that pays.

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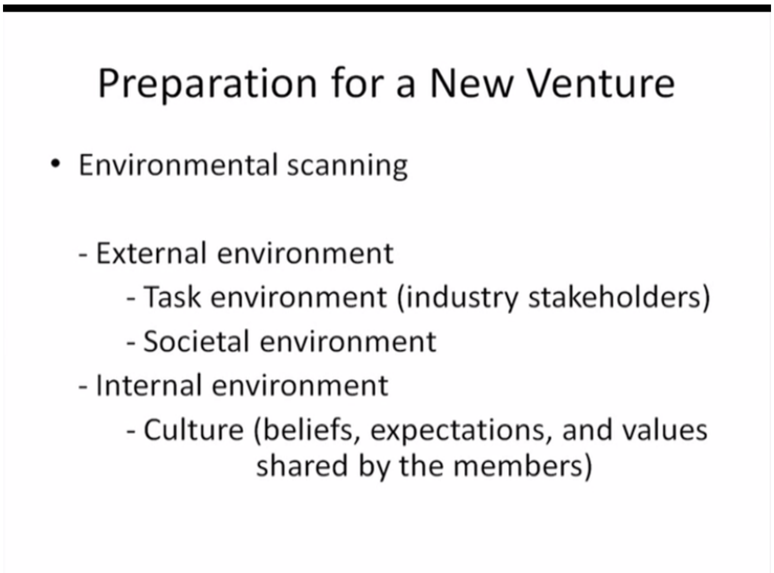

Now we are talking about how to prepare oneself for a new venture. The first thing for preparing for a new venture is environmental scanning. As you already know, environment may consist of external environment and internal environment. The external environment can be thought of to consist of 2 aspects, one the industry stakeholders and the society at large.

The internal environment consists of culture that is beliefs, expectations, and values shared by the promoters, the members who would like to develop a new venture.

So how culturally oriented they are and what the industry in which they are wishing to start a venture is like and what the society at large is. So these are to be studied and this is basically scanning the environment to see how you will position your venture.

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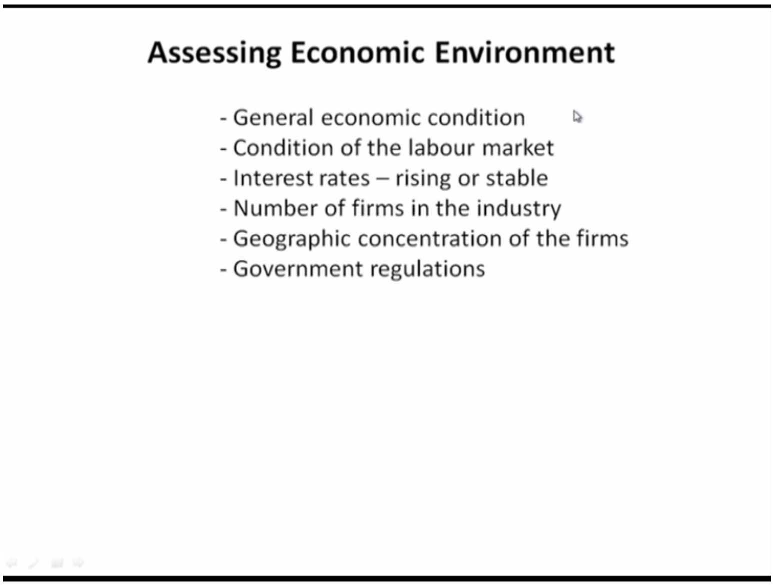

Then assessing economic environment is acquired. In this what are the things to know? The things to know is the general economic condition of the country, condition of the labour market in particular is the venture requires lot of labour to be put and the labour market situation has to be studied. Study the interest rates whether the interest rates are rising or stable, look at the number of firms in the industry.

Because that is the competition that you are likely to face. Also see how these firms are concentrated in a particular geographical location. A geography concentration of the firms and also look at the government regulations particularly with regard to environment, taxation, and other considerations.

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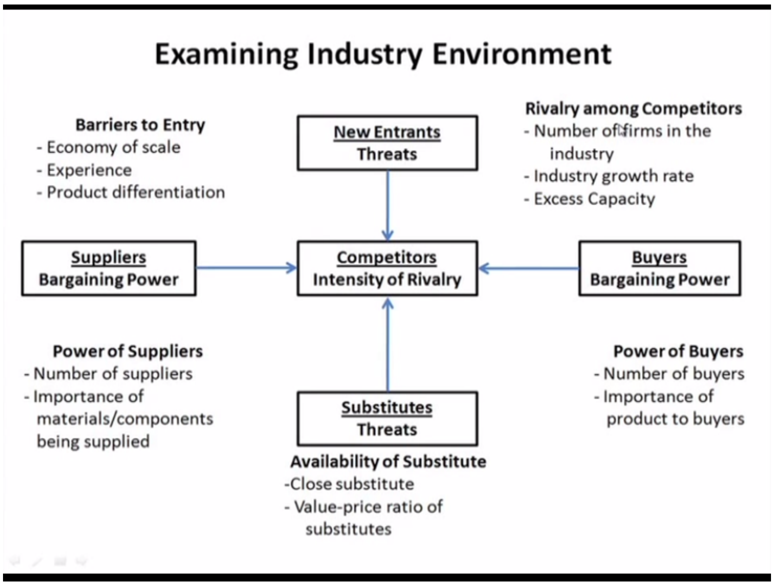

In this context and in particular when you examine the industry environment, Porter's five force model is quite important. The five forces are that there are certain suppliers, they constitute a force, there are certain buyers, they constitute certain force. Then there is new entrants to the industry apart from you and in the industry there are already certain competitors existing.

And of course there is a threat coming from the substitutes of the products that you are thinking of providing. So these are the five forces that are to be studied for the new venture. Now here the details are given here for example for the suppliers the power of the suppliers lies in the number of suppliers, the importance of materials and components of parts being supplied.

For the buyers, how many buyers are there and importance of the product to the buyers. For the new entrants, the economy of scale experience and in what way their product is different, product differentiation and for the substitutes whether they are very close substitutes or whether for the price that they are available they provide this value and then among the competitors you have to see how many firms are existing in the industry, what is their growth rate, whether excess capacity is existing.

So these things relate to the competitors. Now these are the different aspects of industry environment. The five different forces is we call five forces model given by Porter, a very important concept in strategic management that are studied here and that is very relevant to entrepreneurship.

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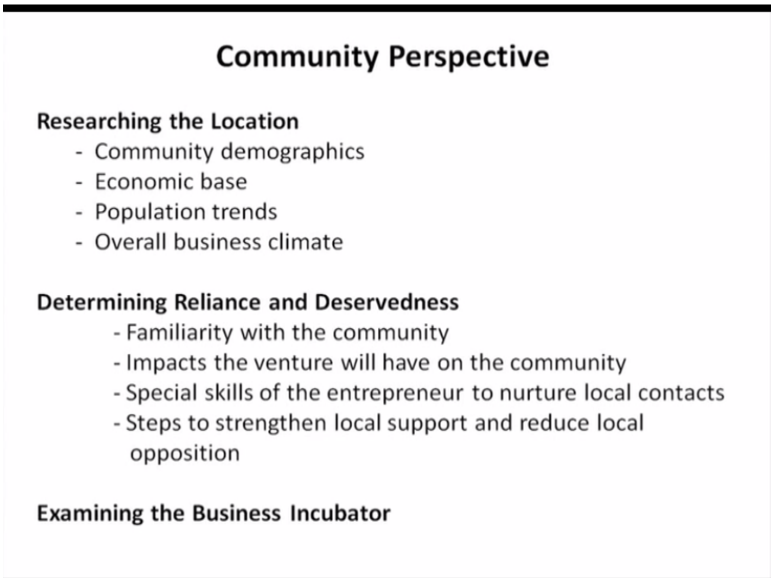

Then the community perspective, in the community perspective we first look at the location. In the location, we look at the demographics, the customers, their distribution, their aids, etc, economic base, standard of living etc, population trends and overall business climate. So when we do the research for the location where the company or where the venture will be located, we have to look at these things.

Also we have to look at how familiar the promoters are with the community or whether the community recognizes the need for the product and whether they know the promoters, impacts the venture will have on the community whether really the community needs the products and the services and to what extent the new venture will be able to satisfy the needs of the community.

Special skills of the entrepreneur to nurture local contacts, so if the promoters or the entrepreneur know some people to what extent he or she can make use of these contacts. Steps to strengthen local support and reduce local opposition. So what sort of steps you will take to see that you strengthen your local support and reduce the opposition if any.

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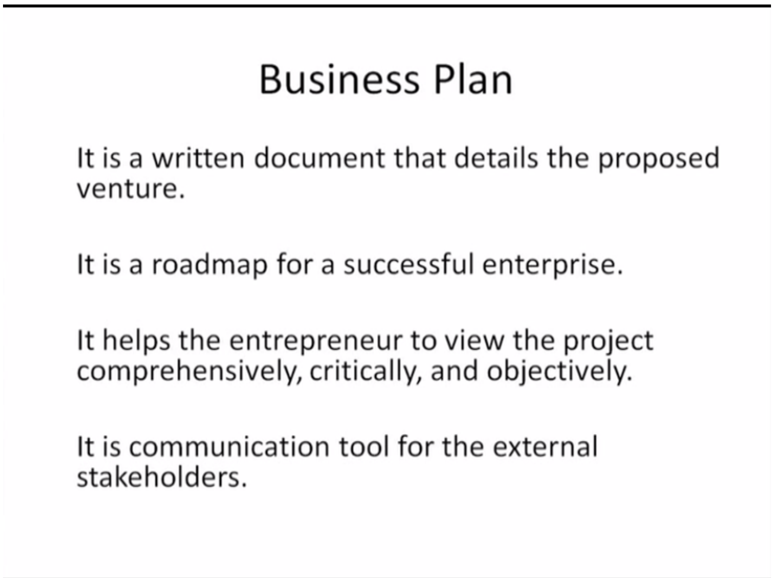

And then one has to make a business plan. In a business plan, it is basically a written document that details the proposed venture that means it gives the details of the proposed venture. It is basically a road map for a successful enterprise. It helps the entrepreneur to view the project comprehensively, critically and objectively and of course it is a communication tool for the external stakeholders.

So the very important requirement for an entrepreneur is to prepare a business plan and a business plan as it is mentioned it gives the details of what you are interested to do, it takes care of the future pros and cons, risks and opportunities, the strategies that you are interested to take, to take advantage of the opportunities and to get over the threats coming from the external environment.

And also it is a tool with which you can communicate with your external stakeholders in particular when you try to impress the local community, the local municipality, the local government and even the financial institutions to help you with funds, to help you get the place, to help you start a business, this business plan is going to be very, very important.

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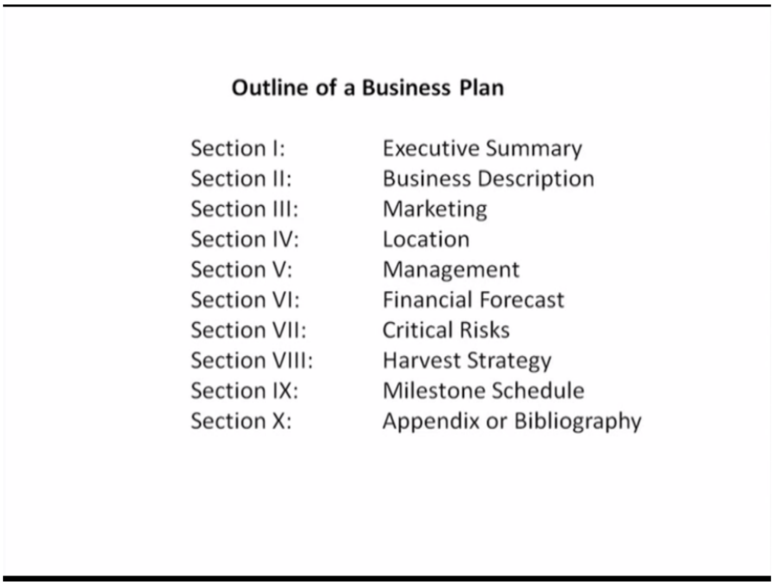

Now the business plan is normally it contains different sections and here a pro forma business plan is given and normally it has 10 sections. The first section is an executive summary of the business plan running into 2 to 5 pages and the last section is an appendix containing bibliography and other things. The other 8 sections from section II through section IX talks about different aspects of a business plan.

Section II deals with business description, section III with marketing, section IV with location, section V with management, section VI financial forecast, section VII critical risks, section VIII harvest strategy, section IX the milestone schedule. Now let us see section II through section IX in some detail.

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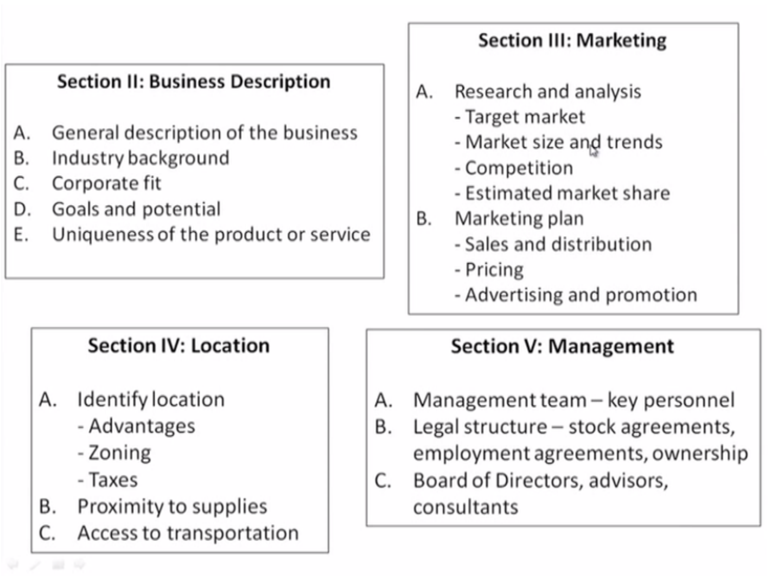

Section II is the business description what exactly you are supposed to give there. Now you are supposed to give a general description of the business, the background of the industry in which the business will operate, how your corporation or your business will fit into the industry environment, what are the goals that you are posing for your business and what are the potentials that you are forcing, what is the uniqueness of the product of the service that you are offering.

Now these are the things that one should give in section II the business description. Section III talks about the marketing aspects, how you are going to market your product. There are 2 aspects research and analysis, the second is marketing plan. In the research and analysis paragraph, you are supposed to talk about the target market, its size and trends, the competition that you are expecting to face and the estimated market share.

In the marketing plan, you are expected to deal with sales and distribution, pricing and advertising and promotion, almost whatever we had covered in marketing management the same thing you will have to know, make a plan for your venture. Section IV deals with location.

Here you have 3 aspects, identify location, in this you talk about what are the advantages of a particular location, the zoning and the tax aspects, whether it is close to suppliers that aspect also you discuss here and whether transportation facilities are available that also you mention here because transportation and location they are very closely related. Similarly, relation to supplying a raw material supply is also quite important.

So in location you talk about these aspects. Now you come to section V where we talk about the management team in which you say who are the key personnel, who will be involved in managing the day to day affairs, the legal structure in which you say from where the money will be arranged, then the ownership and the employment agreements and in C you talk about the board of directors, who are your board of directors, who are the advisors and the consultants.

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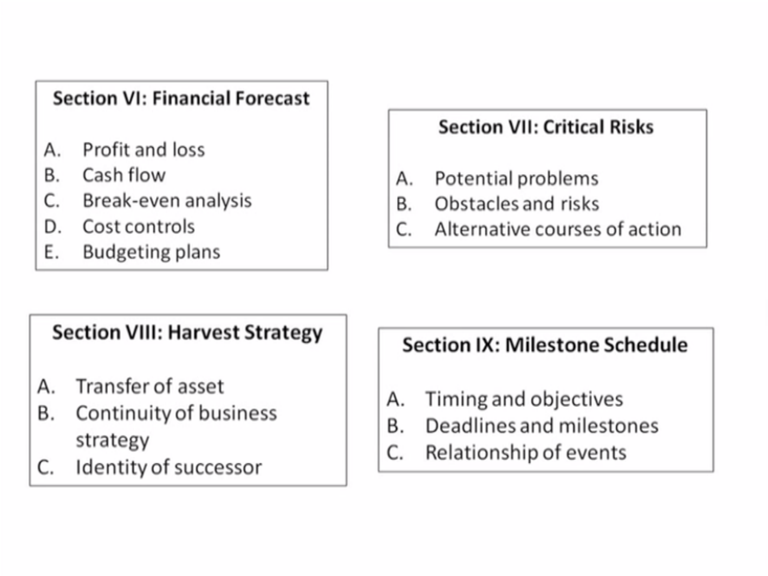

In section VI, you give a financial forecast in which whatever we had covered in our engineering economics and accounting they have to be now discussed here. The profit and loss statements and projection, cash flow and projection, break-even analysis, cost controls and budgetary plans. These have to be covered in financial forecast in section VI.

In section VII, we discuss about critical risks, the potential problems that you foresee that your venture will face, the obstacles and risks that are likely to crop up in the future and what alternative courses you have or what contingency plan you have made to overcome these problems, obstacles and risks. Section VIII basically talks about continuity of the business strategy, who would be your successor, how the assets will be transferred and how the business will continue to exist.

So these are the things to be covered in section VIII and lastly in section IX you give a project schedule on which month, which date you should be able to achieve your objective, what are the deadlines and milestones and how they are related. So these are the things to be given in a business plan. A business plan is a very important step in starting a new enterprise or a new venture.

It more or less gives you an idea, prepares you to not only look into the future but also make immediate plans to achieve whatever plan you have made. So it is a very, very important piece of document.

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Now let us look at certain other aspects. Evaluation of entrepreneurial opportunities, now when an entrepreneur faces different types of opportunities, naturally he has to make certain evaluation of those opportunities and the common pitfalls in selecting the new ventures are the following. Sometimes evaluation is not done in an objective way, sometimes no real insight has been obtained into the market.

Sometimes inadequate understanding of the technical requirements or even financial understanding is poor or the venture is not very unique in anyway or certain legal issues are ignored. So you can see the common pitfalls why new ventures and properly not selected could be technical, could be legal, could be financial etc.

So critical factors that should go into new venture development is that it must be unique and it should require less investment, growth potential for sale should be there, customers must be present, must be available to buy your product and you should be able to make the product available to the customers.

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Now why new ventures fail, this is very important to know why quite often or sometimes new ventures fail. They may fail because of 3 principle reasons, marketing, financial and managerial. Marketing problems, you may be timing your product very poorly, there might be certain design problems, you may not have a good distribution strategy or you are not very clear in what you are trying to do or you are relying on only one particular customer.

Unless you make a diversification, you will face quite a good amount of risk. There can be financial problems, you may not have sufficient capital, you may take too much debt and you are unable to pay them therefore there is a capital relationship problem. So these are financial problems or you may have a managerial problem. You are the soul person who is looking into the venture.

Therefore, the team approach is absent and therefore there is a human resource problem. So these are different reasons why new ventures may fail.

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The Evaluation Process

Asking the Right Questions

1. Is it a new product/service idea?
2. Has a prototype been tested by independent testers?
3. Has it been demonstrated (in trade shows)?
4. Is the product/service easily understood by stakeholders?
5. What is the overall market (market segments)?
6. Has the market research been conducted?
7. What distribution and sales method will be used?
8. How will the product be made?
9. Will the business concept be developed and licensed to others or developed and sold away?
10. Can the company get the necessary skills to operate the business venture?

Now when we make an evaluation we ask certain questions. These are the questions that should be asked to evaluate a new venture. Is it a new product or a service idea? Has a prototype been tested by independent testers? Has it been demonstrated in trade shows? Is the product service easily understood by stakeholders? What is the overall market? Has the market research been conducted?

What distribution and sales method will be used? How will the product be made? Will the business concept be developed and licensed to others or developed and sold away? Can the company get the necessary skills to operate the business venture? So these are certain searching questions that should be asked when we try to evaluate a new product or a new venture.

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Internal Profile Analysis (Strength and Weakness Analysis)

- Rating sub-factors in a five-point scale
- The factors are:
    - Financial
    - Marketing
    - Organizational and
    - Technical
- Each factor can have a number of sub-factors

We also sometimes make an internal profile analysis that is basically strength and weakness analysis where we rate the factors in a five-point scale. The factors are financial, marketing, organizational and technical and each factor can have a number of sub-factors and these sub-factors are rated in a five-point scale.

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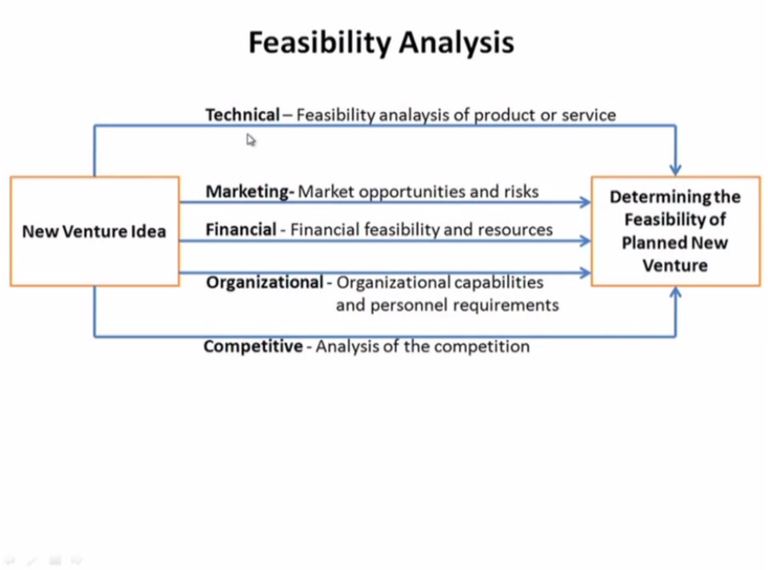

Now we talk about in the business plan one has to make a feasibility analysis. In the feasibility analysis, we make technical feasibility analysis, marketing feasibility analysis, financial feasibility analysis, organizational feasibility analysis and competitive analysis. To be able to see whether a new venture idea is actually feasible, to determine the feasibility of the planned new venture one has to make a feasibility analysis of the product.

One has to see how the market opportunities and risks are taken care of, whether financially the idea is feasible, whether organizational capabilities are existing and enough personnel that are required to do the work are available and whether the competition it can take care of. So feasibility analysis does not only mean financial feasibility analysis. One has to look at all these things to see whether the idea can actually be converted into a new venture.

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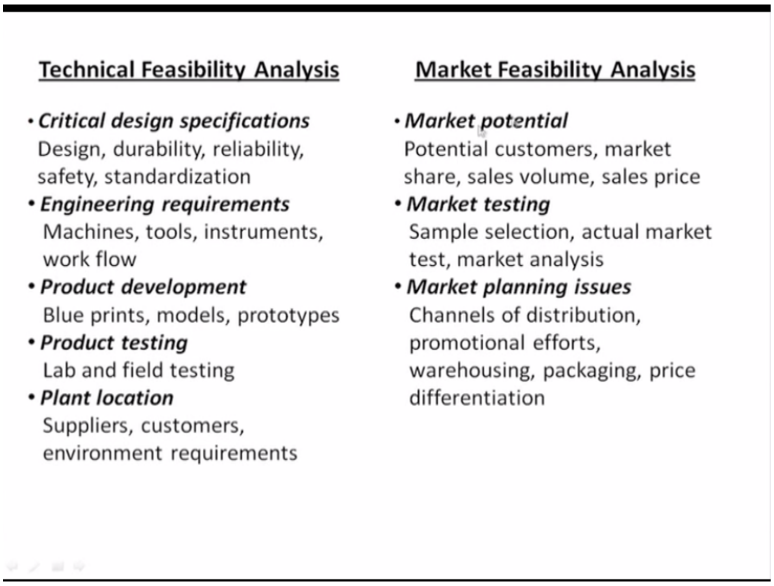

Now between the technical feasibility and the market feasibility analysis, in the technical feasibility analysis we look into critical design specifications starting from design specification to plant location. All that we have studied earlier they are considered design, durability, reliability, safety and standardization. In the engineering requirements, we look at machines, tools, instruments and work flow.

Product development looks at blue prints, models and prototypes. Product testing, we look at lab and field testing. In plant location, we look at suppliers, customers and environment requirements. In the market feasibility analysis, we look at market potential. In this we look at potential customers, market share, sales value, sales price. In market testing, we look at sample selection, actual market test and market analysis.

In market planning issues, we consider channels of distribution, promotional efforts, warehousing, packaging and price differentiation. All these things we have studied in detail in our earlier lectures.

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Now the financial feasibility analysis, we look at financial resource requirements for fixed and current assets including working capital. We look for available financial resources, what are resources that are available. We may borrow, we look at potential source of fund, we consider the cost of borrowing, we also look at the repayment conditions. We look at operation cost analysis in which we consider fixed cost, variable cost and projected cash flow.

And we definitely consider the profitability analysis looking at breakeven or making breakeven analysis and internal rate of return. In organizational capabilities, we consider personnel requirements, skills, managerial, individual responsibilities, organizational relationships, organizational development.

And in competitive analysis we look at existing competitors, size, financial resources, market, reaction of competitors and potential new competitors.

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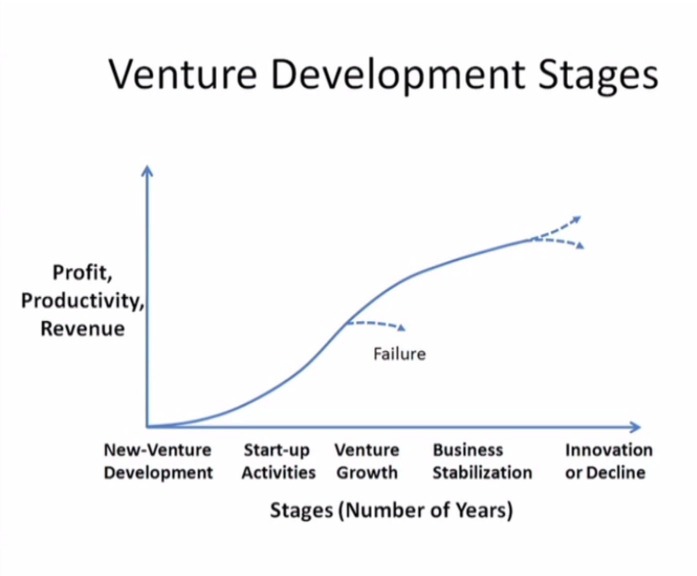

Now so long we were talking about various detailed aspects of entrepreneurship. Now we see that once a new enterprise starts, as years roll by it is expected that revenue productivity and profit would continue to grow. So from a small start the venture can grow in size to be more profitable productive and depending on different circumstances, it may fail earlier or it may continue to grow or it may fail little later in the years or it may grow.

All this depends on how effectively the entrepreneur changes his style or follows different strategies to match with the change in the environment. So this calls for change strategy. A company that started as a small enterprise may actually grow to a large corporation in a few years' time, all these depends on how well the entrepreneur is accommodating himself or changing his style and strategy, taking care of the opportunities and the challenges coming from the environment.

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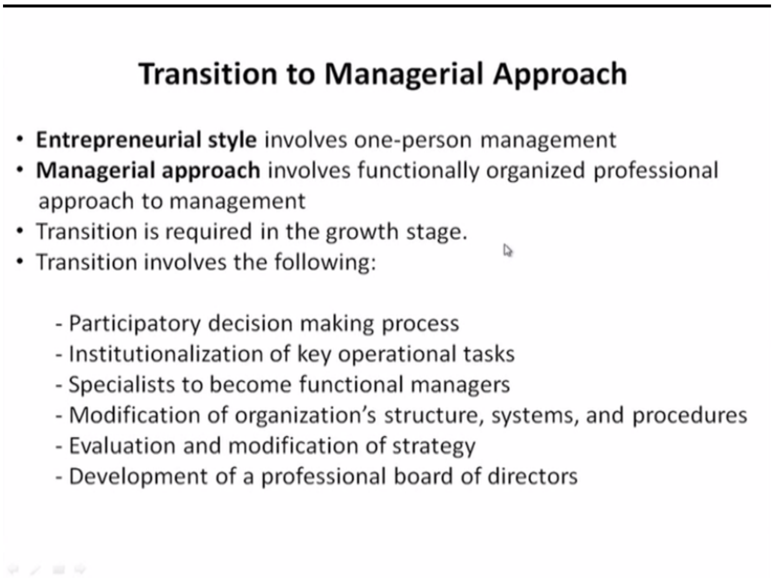

Now this is the transition to managerial approach, so long the style of management was a one-person entrepreneurial style. The style must change to a professional managerial approach, a functionally organized professional approach. He must make a transition and that transition must occur in the growth stages. This transition would involve participatory decision making process and it should institutionalize different responsibilities and authority of different persons.

It should work with the help of specialists. There must be organization structure, systems and procedures and there must be professionally selected board of directors. So friends in these 50 lectures on economics, management and entrepreneurship, we have discussed a wide variety of topics ranging from microeconomics, engineering economics, costing, accounting to different aspects of management such as planning, coordinating and controlling and then talking about marketing management, financial management.

Then talking about different aspects of entrepreneurship such as how to start a new business, how to source funds and then in today's lecture we talked about certain finer aspects of creativity, innovation and finally we talked about the need and preparation and the structure of a business plan and in the last slide, we said that if the entrepreneur has the stamina, has the wisdom, is ready to work, take risks and makes all his plans well enough.

And implement them in true spirit and with the help of certain amount of fortune or blessings of the God most likely the entrepreneur would succeed and would grow and if it grows then he must change his style from a one-person entrepreneurial style of management to a professionally managed group where specialists are used, where there are standards, procedures they are all written down, where there are professionally managed organization.

Unless this is done, unless the entrepreneur changes his style of management to take care of the advantages and challenges coming from the environment, the venture will fail. I am sure those of you who have gone through this series of lectures would benefit in a big way but please remember there are many more other things in this area than what we have covered in these classes.

There are topics on project management, on quality management, on human resource management and similar such topics that we could not cover and I am sure with the background that we have now given you, you will yourself read and educate yourself on these new aspects that we have not covered and we will actually be creative innovators and successful entrepreneurs. With this, thank you very much.