ENTREPRENEURIAL DEVELOPMENT

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UNIT I

Entrepreneurship

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.

What is Entrepreneurship?

There are many meanings of the term _entrepreneurship'. After attentively discussing all the available ones, we can conclude that entrepreneurship is a system of operating business in which opportunities existing within the scope of a market are exploited. Self-employment necessitates that any available opportunities within the economic system should be utilized in the creation and functioning of new organizations.

A potential entrepreneur should show the interest to seek out investment opportunities in the market, so that they can run the enterprise successfully based on the identifiable opportunities.

Thus, going through the above responsibilities of an entrepreneur, the term _entrepreneurship' has been finally defined as a function which covers multiple functions such as:

- **Building organizations.**
- **Providing self-employment**
- **Utilization of available resources**
- **Innovation applied to the novel concept**
- **Bringing together multiple factors of production in a tangible manner.**
- **Identifying and exploiting business opportunities within the available market**

Who is an Entrepreneur?

Entrepreneurs are business people who can detect and sense the availability of business opportunities in any given scenario. They will utilize these opportunities to create new products by employing new production methods in different markets. They will also function in different ways by using various resources which will give them profit. It is important to note that although most entrepreneurial businesses start small, the owners of such businesses need not be small scale owners. They could in fact be big business owners, who first try and test the waters before investing big time in the business. Small business owners dread risk, but successful entrepreneurs are very innovative and know how to operate profitably in a business environment, even if the risk is very high. In fact, innovation is the life blood of any kind of entrepreneurs; this is one of the tools that helps them gain an advantage over established players in the market.

Entrepreneurs are, thus, defined as —***individuals or groups of individuals who carry out entrepreneurship activities that are based on their innovative approaches to solving real-world problems***.

Types of Entrepreneurs:

Based on their working relationship with the business environment they are functioning in, various types of entrepreneurs can be found. The chief categories are these four types of entrepreneurs, i.e.

- **Innovative entrepreneurs,**
- **Imitating Entrepreneurs,**
- **Fabian Entrepreneurs,**
- **Drone Entrepreneurs.**

Innovative Entrepreneurs :

This type of an entrepreneur is more interested in introducing some new ideas into the market, organization or in the nation. They are drawn towards innovations and invest a lot of time and wealth in doing research and development.

Imitating Entrepreneurs:

These are often disparagingly referred to as _copy cats'. They observe an existing successful system and replicate it in a manner where all the deficiencies of the original business model are addressed and all its efficiencies are retained. These entrepreneurs help to improve an existing product or production process and can offer suggestions to enhance the use of better technology.

Fabian Entrepreneurs:

These are entrepreneurs that are very careful in their approaches and cautious in adopting any changes. They are not prone to sudden decisions and try to shy away from any innovations or change that doesn't fit their narrative.

Drone Entrepreneurs:

These are entrepreneurs who do not like a change. They are considered as _old school'. They want to do business in their own traditional or orthodox methods of production and systems. Such people attach pride and tradition to even outdated methods of doing business.

Roles of an Entrepreneur:

Entrepreneurs fulfill the following three dominant roles:

- **Economic Change**
- **Social Change**
- **Technological Change**

These are referred to as ***behavioral roles***. All entrepreneurs have these common characteristics and decide to become an entrepreneur due to the factors or circumstances in their lives which made them think the way they do. To do their work effectively and operate a successful business, these entrepreneurs should perform certain roles. These roles are the same as the basic managerial roles.

FACTORS AFFECTING ENTREPRENEURIAL GROWTH

Various researchers world over have identified the factors that contribute to the development of entrepreneurship. Economists agree that the lack of entrepreneurs is not caused by economic conditions alone as was the earlier feeling. It is also due to the whole set of socio-cultural and institutional environment prevailing in the less developed countries. Various environmental factors influencing the entrepreneurship are as follows:

(A) Economic Factors:

Economic environment exercises the most direct and immediate influence on entrepreneurship. The economic factors that affect the growth of entrepreneurship are the following:

Capital:

Capital is one of the most important perquisites to establish an enterprise. Availability of capital facilitates for the entrepreneur to bring together the land of one, machine of another and raw material of yet another to combine them to produce goods. Capital is therefore, regarded as lubricant to the process of production. Our accumulated experience suggests that with an increase in capital investment, capital-output ratio also tends to increase. This results in increase in profit which ultimately goes to capital formation. This suggests that as capital supply increases, entrepreneurship also increases. France and Russia exemplify how the lack of capital for industrial pursuits impeded the process of entrepreneurship and an adequate supply of capital promoted it.

Labour:

The quality rather quantity of labour is another factor which influences the emergence of entrepreneurship. Most less developed countries are labour rich nations owing to a dense and even increasing population. But entrepreneurship is encouraged if there is a mobile and flexible labour force. And, the potential advantages of low-cost labour are regulated by the deleterious effects of labour immobility. The considerations of economic and emotional security inhibit labour mobility. Entrepreneurs, therefore, often find difficulty to secure sufficient labour. They are forced to make elaborate and costly, arrangements to recruit the necessary labour. The problem of low-cost immobile labour can be circumvented by plunging ahead with capital-intensive technologies, as Germany did. It can be dealt by utilizing labour-intensive methods like Japan. By contrast, the disadvantage of high-cost labour can be modified by introduction of labour-saving innovations as was done in US. Thus, it appears that labour problems can be solved more easily than capital can be created.

Raw Materials:

The necessity of raw materials hardly needs any emphasis for establishing any industrial activity and its influence in the emergence of entrepreneurship. In the absence of raw materials, neither any enterprise can be established nor can an entrepreneur be emerged. Of course, in some cases, technological innovations can compensate for raw material inadequacies. The Japanese case, for example, witnesses that lack of raw material clearly does not prevent entrepreneurship from emerging but influenced the direction of entrepreneurship. In fact, the supply of raw materials is not influenced by them but becomes influential depending upon other opportunity conditions. The more favorable these conditions are, the more likely is the raw material to have its influence of entrepreneurial emergence.

Market:

The fact remains that the potential of the market constitutes the major determinant of probable rewards from entrepreneurial function. Frankly speaking, if the proof of pudding lies in eating, the proof of all production lies in consumption, i.e., marketing. The size and composition of market both influence entrepreneurship in their own ways. Practically, monopoly in a particular product in a market becomes more influential for entrepreneurship than a competitive market. However, the disadvantage of a competitive

market can be cancelled to some extent by improvement in transportation system facilitating the movement of raw material and finished goods, and increasing the demand for producer goods. D.S. Landes holds the opinion that improvements in transportation are more beneficial to heavy industry than to light industry because of their effects on the movement of raw materials. Paul H. Wilken claims that instances of sudden rather than gradual improvement in market potential provide the clearest evidence of the influence of this factor. He refers to Germany and Japan as the prime examples where 'rapid improvement in- market was followed by rapid entrepreneurial appearance. Thus, it appears that whether or not the market is expanding and the rate at which it is expanding are the most significant characteristics of the market for entrepreneurial emergence.

Infrastructure:

Expansion of entrepreneurship presupposes properly developed communication and transportation facilities. It not only helps to enlarge the market, but expand the horizons of business too. Take for instance, the establishment of post and telegraph system and construction of roads and highways in India. It helped considerable entrepreneurial activities which took place in the 1850s. Apart from the above factors, institutions like trade/ business associations, business schools, libraries, etc. also make valuable contribution towards promoting and sustaining entrepreneurship' in the economy. You can gather all the information you want from these bodies. They also act as a forum for communication and joint action. Of late, the importance of business and industry associations has increased tremendously. In the fast changing world of business, entrepreneurs have to move-collectively in order to be more effective and more efficient. They need to constantly check and influence the Government's thinking and decision-making.

(B) Social Factors:

Social factors can go a long way in encouraging entrepreneurship. In fact it was the highly helpful society that made the industrial revolution a glorious success in Europe. The main components of social environment are as follows:

Caste Factor:

There are certain cultural practices and values in every society which influence the' actions of individuals. These practices and value have evolved over hundreds of years. For

instance, consider the caste system (the Varna system) among the Hindus in India. It has divided the population on the basis of caste into four divisions. The Brahman (priest), the Kshatriya (warrior), the Vaishya (trade) and the Shudra (artisan): It has also defined limits to the social mobility of individuals. By social mobility' we mean the freedom to move from one caste to another. The caste system does not permit an individual who is born a Shridra to move to a higher caste. Thus, commercial activities were the monopoly of the Vaishyas. Members of the three other Hindu Varnas did not become interested in trade and commence, even when India had extensive commercial inter-relations with many foreign countries. Dominance of certain ethnical groups in entrepreneurship is a global phenomenon. The protestant ethics in the west, the Sammurai in Japan, the trading classes in US and the family business' concerns of France have distinguished themselves as entrepreneurs.

Family Background:

This factor includes size of family, type of family and economic status of family. In a study by Hadimani, it has been revealed that Zamindar family helped to gain access to political power and exhibit higher level of entrepreneurship. Background of a family in manufacturing provided a source of industrial entrepreneurship. Occupational and social status of the family influenced mobility. There are certain circumstances where very few people would have to be venturesome. For example in a society where the joint family system is in vogue, those members of joint family who gain wealth by their hard work denied the opportunity to enjoy the fruits of their labour because they have to share their wealth with the other members of the family.

Education:

Education enables one to understand the outside world and equips him with the basic knowledge and skills to deal with day-to-day problems. In any society, the system of education has a significant role to play in inculcating entrepreneurial values.

In India, the system of education prior to the 20th century was based on religion. In this rigid system, critical and questioning attitudes towards society were discouraged. The caste system and the resultant occupational structure were reinforced by such education. It promoted the idea that business is not a respectable occupation. Later, when the British came to our country, they introduced an education system, just to produce clerks and accountants for the East India Company, The base of such a

system, as you can well see, is very anti-entrepreneurial. The unfortunate result of it is that young men and women in our country have developed a taste only for service. Their talents and capabilities have not been made much use of. Rather it has been wasted in performing routine conventional jobs. Our educational methods have not changed much even today. The emphasis is till on preparing students for standard jobs, rather than marking them capable enough to stand on their feet.

Attitude of the Society:

A related aspect to these is the attitude of the society towards entrepreneurship. Certain societies encourage innovations and novelties, and thus approve entrepreneurs' actions and rewards like profits. Certain others do not tolerate changes and in such circumstances, entrepreneurship cannot take root and grow. Similarly, some societies have an inherent dislike for any money-making activity. It is said, that in Russia, in the nineteenth century, the upper classes did not like entrepreneurs. For them, cultivating the land meant a good life. They believed that rand belongs to God and the produce of the land was nothing but god's blessing. Russian folk-tales, proverbs and songs during this period carried the message that making wealth through business was not right.

Cultural Value:

Motives impel men to action. Entrepreneurial growth requires proper motives like profit-making, acquisition of prestige and attainment of social status. Ambitious and talented men would take risks and innovate if these motives are strong. The strength of these motives depends upon the culture of the society. If the culture is economically or monetarily oriented, entrepreneurship would be applauded and praised; wealth accumulation as a way of life would be appreciated. In the less developed countries, people are not economically motivated. Monetary incentives have relatively less attraction. People have ample opportunities of attaining social distinction by non-economic pursuits. Men with organizational abilities are, therefore, not c dragged into business. They use their talents for non-economic ends. The absence of proper economic motives is a general characteristic of agrarian societies in which people do not attach great value to business talents, industrial leadership etc.

(C) Psychological Factors:

Many entrepreneurial theorists have propounded theories of entrepreneurship that concentrate especially upon psychological factors. These are as follows:

Need Achievement:

The most important psychological theories of entrepreneurship was put forward in the early) 960s by David McClelland. According to McClelland 'need achievement' is social motive to excel that tends to characterize successful entrepreneurs, especially when reinforced by cultural factors. He found that certain kinds of people, especially those who became entrepreneurs, had this characteristic. Moreover, some societies tend to reproduce a larger percentage of people with high 'need achievement' than other societies. McClelland attributed this to sociological factors. Differences among societies and individuals accounted for 'need achievement' being greater in some societies and less in certain others. Analyzing this phenomenon, Paul Wilken has said, "entrepreneurship becomes the link between need achievement and economic growth", the latter being a specifically social factor.

The theory states that people with high need-achievement are distinctive in several ways. They like to take risks and these risks stimulate them to greater effort. The theory identifies the factors that produce such people. Initially McClelland attributed the role of parents, specially the mother, in mustering her son or daughter to be masterful and self-reliant. Later he put less emphasis on the parent-child relationship and gave more importance to social and cultural factors. He concluded that the 'need achievement' is conditioned more by social and cultural reinforcement rather than by parental influence and such related factors.

Withdrawal of Status Respect:

There are several other researchers who have tried to understand the psychological roots of entrepreneurship. One such individual is Everett Hagen who stresses the-psychological consequences of social change. Hagen says, at some point many social groups experience a radical loss of status. Hagen attributed the withdrawal of status respect of a group to the genesis of entrepreneurship. Giving a brief sketch of history of Japan, he concludes that it developed sooner than any non-western society except Russia due to two historical differences. First, Japan had been free from colonial disruption and secondly, the repeated long continued withdrawal of expected status from important groups (smaurai) in its

society drove them to retreatism which caused them to emerge alienated from traditional values with increased creativity. This very fact led them to the technological progress through entrepreneurial roles.

Hage believes that the initial condition leading to eventual entrepreneurial behavior is the loss of status by a group. He postulates that four types of events can produce status withdrawal:

(a) The group may be displaced by force;

(b) It may have its valued symbols denigrated;

(c) It may drift into a situation of status inconsistency; and

(d) It may not be accepted the expected status on migration in a new society.

He further postulates that withdrawal of status respect would give rise to four possible reactions and create four difference personality types:

(a) Retreatist: He who continues to work in a society but remains different to his work and position;

(b) Ritualist: He who adopts a kind of defensive behavior and acts in the way accepted and approved in his society but no hopes of improving his position;

(c) Reformist: He is a person who foments a rebellion and attempts to establish a new society; and

(d) Innovator: He is a creative individual and is likely to be an entrepreneur.

Hagen maintains that once status withdrawal has occurred, the sequence of change in personality formation is set in motion. He refers that status withdrawal takes a long period of time – as much as five or more generations – to result in the emergence of entrepreneurship.

Motives:

Other psychological theories of entrepreneurship stress the motives or goals of the entrepreneur. Cole is of the opinion that besides wealth, entrepreneurs seek power, prestige, security and service to society. Stepanek points particularly to non-monetary aspects such as independence, persons' self-esteem, power and regard of the society.

On the same subject, Evans distinguishes motive by three kinds of entrepreneurs:

(a) Managing entrepreneurs whose chief motive is security.

(b) Innovating entrepreneurs, who are interested only in excitement.

(c) Controlling entrepreneurs, who above all other motives- want power and authority.

Finally, Rostow has examined intergradational changes in the families of entrepreneurs. He believes that the first generation seeks wealth, the second prestige and the third art and beauty.

Others:

Thomas Begley and David P. Boyd studied in detail the psychological roots of entrepreneurship in the mid 1980s. They came to the conclusion that entrepreneurial attitudes based on psychological considerations have five dimensions:

First came 'need-achievement' as described by McClelland. In all studies of successful entrepreneurs a high achievement-orientation is invariably present.

The second dimension that Begley and Boyd call 'locus of control' This means that the entrepreneur follows the idea that he can control his own life and is not influenced by factors like luck, fate and so on. Need-achievement logically implies that people can control their own lives and are not influenced by external forces.

The third dimension is the willingness to take risks. These two researchers have come to the conclusion that entrepreneurs who take moderate risks earn higher returns on their assets than those who take no risks at all or who take extravagant risks.

Tolerance is the next dimension of this study. Very few decisions are made with complete information. So all business executives must, have a certain amount of tolerance for ambiguity.

Finally, here is what psychologists call 'Type A' behavior. This is nothing but "a chronic, incessant struggle to achieve more and more in less and less of time" Entrepreneurs are characterize by the presence of 'Type A' behavior in all their endeavors.

(D) Political Factors:

A football player might possess exceptional talent. But, his contribution to the nation and the world of sports would remain negligible, if his performance is restricted to the courtyard of his own house. He needs a football ground to practice on and resources to buy the accessories. He also requires encouragement and support from those in authority so that he could freely play with others and prove his talent. In the same way, an entrepreneur, however creative he/she may be, cannot function without the supportive actions of the Government. It is for the government/society to ensure the availability of

required resources for the entrepreneurs and also the accessibility to them. This is because the successful entrepreneur contributes to the well being of the society. Policies relating to various-economic aspects like prices, availability of capital, labour and other inputs, demand structure, taxation, income distribution, etc. affect growth of entrepreneurship to a large extent. Promotive government activities such as incentives and subsidies contribute substantially to entrepreneurial performance. At the same time, Government policies like licenses, regulations, favouritism, government monopolies, etc. are undesirable for the growth of business enterprises. Above all, a Government that is politically stable and united can affect entrepreneurial activities in a significant manner. Is there a business entrepreneur in your neighborhoods? Try to gather information on his/her views on various government policies, for example, on taxation, finance, labour etc. Also ask him/her about the opportunities and growth prospects of a business unit. Write down your observations.

India, all the above mentioned environmental forces have turned in favor of enterprising men and women. There is a visible change for the better in the highly inactive entrepreneurial field in the country. The tight grip of religious and traditional, ideas and practices have begun to loosen. Dogmas (settled opinions) and superstitions have lost the hold they earlier had. It is encouraging the 'non-commercial' classes to consider economic opportunities more sympathetically. As a result, occupational division based on caste system has undergone tremendous traditional activities, social approval etc. have become less important. More important now, are the economic factors such as access to capital and possession of entrepreneurial attitudes and business I knowledge.

Development of infrastructure, changes in government policies in favor of business and industry and of course, rise in demand for products manufactured are some of the other factors that have led the Indian entrepreneurs to look for new business opportunities.

Functions of an Entrepreneur

Taking Initiative

Organizing Resources

Identifying Opportunities and Prospects

Risk-Taking

Decision Making

Technology Transfer and Adaptation

Innovation

Fostering Autonomy

Social Responsibility

Public Relations

Experience Sharing

Managerial Roles

Balanced Economic Development

1. Taking Initiative

Entrepreneurship is a pro-active activity that takes such actions, which others can't even perceive. This unique function of entrepreneurship provides our civilization with a wide variety of products, ways of actions, production techniques, etc. Therefore, taking initiative with such end and qualification is the prime function of entrepreneurship in every economy.

2. Organizing Resources

Organizing entails identifying those resources that are required to transform a particular idea into reality. The resources include human and nonhuman resources. Organizing in entrepreneurship will increase productivity, promote new ventures, distribute and supervise work and responsibility, and will remove barriers to work. Entrepreneurship, thus, is the taping tool fur assuming indigenous skills and resources for the productive purpose.

3. Identifying Opportunities and Prospects

Entrepreneurship searches those activities of value that have an economic and social contribution. It identifies new opportunities in the socio-economic arena which have got profitable prospects therefore, entrepreneurs are called searchers of hopes into blind spots and this function enormously indebted our society to entrepreneurship.

4. Risk-Taking

Entrepreneurship takes the risk for the new venture. For innovative actions in the field of production technology for new products in a volatile market and new raw materials used in production. Moreover, it also takes the risk for theft, robbery, snatching market fall and

hooliganism that may be involved with new entrepreneurship This is a major function of entrepreneurship in developing countries.

5. Decision Making

Entrepreneurship is a new initiative therefore, it has to decide multivariate issues that affect new ventures. Entrepreneurship has to decide upon equipment to be used quality, price and its variation, deficiency, capital structure, the feasibility of the project, organizational structure, philosophy of management, etc. that will guide, run and prosper the new venture or distinct attempt for entrepreneurship.

We know that decision-making is a process and entrepreneurship to make n a success, goes through this process.

6. Technology Transfer and Adaptation

Entrepreneurship throughout the world brings invented technology from different comers of the world and makes it appropriate by making required adjustments for local conditions. This function of entrepreneurship involves identifying appropriate technology with market potentials and adapts it into the local environment. Sometimes, the technology uses indigenous materials that reduce cost and wastage of resources. This entrepreneurial function virtually makes the world united in terms of homogeneous technology.

7. Innovation

Entrepreneurship innovates a new production process or technology, market, sources of new materials, management, strategy or technique, investment opportunity, etc. that Schumpeter (1934) calls as the fundamental characteristics of entrepreneurship. Under the context of the changing environment, the entrepreneur locates the most feasible opportunity for the venture as well as improved or distinct technology that gives competitive advantages or a new opportunity to prosperity. Innovation is a creative means to add new utilities to existing situations or products. Entrepreneurship through innovation creates innovative products or operations for human society.

8. Fostering Autonomy

Entrepreneurship is an exposure of creative faculty that provides personal satisfaction and independence. The unique freedom to think differently is the impetus for entrepreneurship. Thus, entrepreneurship Fosters autonomy to advent something new of value by the application of devoted efforts and time.

9. Social Responsibility

Entrepreneurship with its innovative technology somehow promotes human efforts. It restarts closed industries with innovative managerial strategies and techniques

It also motivates new entrepreneurs and attracts them to engage into an entrepreneurial venture. Entrepreneurship provides new products or ideas that give momentum and diversity into society. Therefore, entrepreneurship performs social responsibility that protects the welfare, benefit and economic gain of the society. It also promotes the community standard by providing jobs and amenities.

10. Public Relations

Entrepreneurship is a new venture that requires social acceptance by the regulatory bodies and the public at large. The government, as well as the persons' who will be subject to entrepreneurship, would be convinced through public relations to accept and to allow the entrepreneur to execute an entrepreneurial venture. History tells that many entrepreneurs were disregarded, coerced and even eliminated for their entrepreneurial activities. Failure is costly and therefore, public relation is a significant function of entrepreneurship.

11. Experience Sharing

Entrepreneurship may spread in society through publishing and sharing its success stories. Thus, entrepreneurship holds workshops, industrial visits through which the entrepreneurial experience in different counties may be shared with a widespread adaptation of success. This function will benefit the economies of the countries as well as the world bodies.

12. Managerial Roles

Entrepreneurs perform several managerial roles to keep their venture functioning with success. The roles are interpersonal roles that consist of a figurehead role, leadership role, and liaison role; informational roles that include recipient role, disseminator role, and the spokesperson role; decisional roles that consist of an entrepreneurial role, disturbance-handler role, resource allocator role, and the negotiator role. The entrepreneur also does the associated managerial functions such as planning, organizing, leading and controlling.

13. Balanced Economic Development

Sustainable economic development requires a balanced development among various regions and sectors of a country. Every country tries to ensure such a situation that makes

industrialization throughout the country "possible. Entrepreneurs make it possible by establishing business ventures in various parts of the country in various sectors of the industry.

CLASSIFICATION OF ENTREPRENEURSHIP

I. According to the Type of Business

Entrepreneurs are found in various types of business coronations 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 creates 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. They are called small business entrepreneurs when found in small business units such as printing press, textile processing house, advertising agency; readymade garments, or confectionery. In a majority of cases, entrepreneurs are found in small trading and manufacturing business and entrepreneurship flourishes when the size of the business is small.

Trading Entrepreneur:

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. Britain, due to geographical limitations, has developed trade through trading entrepreneurs. These entrepreneurs demonstrate their ability in pushing many ideas ahead to promote their business.

Industrial Entrepreneur:

Industrial entrepreneur is essentially a manufacturer, who identifies the potential needs of customers and tailors a 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. The entrepreneur has the ability to convert economic resources and technology into a considerably profitable venture. He is found in industrial units as the electronic industry, textile units, machine tools or videocassette tape factory and the like.

Corporate Entrepreneur:

Corporate entrepreneur is a person .who demonstrates his innovative skill in organizing and managing corporate undertaking. A corporate undertaking is a form of business' organization, which is registered under some statute or Act, which gives it a separate legal entity. A trust registered under the Trust Act, or companies registered under the Companies Act are example of corporate undertakings. A corporate entrepreneur is thus an individual who plans, develops and manages a corporate body.

Agricultural Entrepreneur:

Agricultural entrepreneurs are those entrepreneurs who undertake agricultural activities as raising and marketing of crops, fertilizers and other inputs of agriculture. They are motivated to raise agriculture through mechanization, irrigation and application of technologies for dry land agriculture products. They cover a broad spectrum of the agricultural sector and include its allied occupations.

II. According to the Technology use

The application of new technology in various succors of the national economy is essential for the future growth of business. We may broadly classify these. entrepreneurs on the basis of the use of technology as follows:

Technical Entrepreneur:

A technical entrepreneur is essentially compared to a "craftsman." He develops improved quality of goods because of his craftsmanship. He concentrates more on production than marketing. On not much sales generation by and does not do various sales promotional techniques. He demonstrates his innovative capabilities in matter of production of goods and rendering of services. The greatest strength, which the technical entrepreneur has, is his skill in production techniques.

Non-technical Entrepreneur:

Non-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. A professional entrepreneur sells out the running business and starts another venture with the sales

proceeds. Such an entrepreneur is dynamic and he conceives new ideas to develop alternative projects.

III. According to the Entrepreneur and 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 business acumen.

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 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 induced entrepreneurs enter business due to financial, technical and several other facilities provided to them by the state agencies to promote entrepreneurship. A person with a sound project is provided package assistance to his project. Today, import restriction and allocation to production quotas to mall units have induced many people to start a small-scale industry.

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.

Spontaneous Entrepreneur

They are persons with initiative, boldness and confidence in their_- ability, which activate, them, underage entrepreneurial activity. Such entrepreneurs have a strong conviction and confidence in their inborn ability.

IV. According to the Growth and Entrepreneurs

The development of a new venture has a greater chance of success. The entrepreneurs a new and open field of business. The customer's approval to the new product gives them

psychological satisfaction and enormous profit. The industrial units are identified as units of high growth, medium growth and low growth industries and as such we have "Growth Entrepreneur" and "Super-Growth Entrepreneur."

Growth Entrepreneur:

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

Super-Growth Entrepreneur:

Super-growth entrepreneurs 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.

V. According to the Entrepreneur and Stages of Development

Entrepreneurs may also be classified as the first generation entrepreneur, modern entrepreneur and classical entrepreneur depending upon the stage of development. They are explained below:

First-Generation Entrepreneur:

A first-generation entrepreneur is one who starts an. industrial unit by 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.

VI. Others

Innovating entrepreneurship is characterized by aggressive assemblage in 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, and 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 the reorganization of an existing enterprise.

THEORY OF ENTREPRENEURSHIP

Theory # 1. Innovation Theory:

This theory was propounded by J.A. Schumpeter. According to Schumpeter, entrepreneur is basically an innovator and innovator is one who introduces new combinations.

In practice, new combination theory covers five cases which are given below:

(i) The introduction of a new good which consumers, are not yet familiar—or of a new quality of a good.

(ii) The introduction of a new method of production, that one not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new and can also exist in a new way of handling a commodity commercially.

(iii) The opening of a new market i.e. a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before.

(iv) The conquest of a new source of supply of raw materials or half manufactured goods, irrespective of whether this source already exists or whether it has first to be created.

(v) The carrying out of the new organization of any industry like the creation of a monopoly position (for example, through trustification) or the breaking up of a monopoly position.

Critical Evaluation:

In Schumpeterian theory, the main theme is the innovation. He makes a distinction between an innovator and an inventor. According to him, an inventor discovers new methods and new materials. But, an innovator is one who applies inventions and

discoveries in order to make now combinations. With the help of these new combinations, he produces newer and better goods which yield satisfaction as well as profits.

In economic development process, entrepreneurs have been assigned a crucial role so that tempo of growth is maintained effectively. Development requires basic changes and entrepreneurs carry out the required changes. Thus, entrepreneurial development brings economic development.

Schumpeter's concept of entrepreneurship is quite broad based. Entrepreneurship includes not only the independent business men but also executives and managers who actually undertake innovative functions.

However, Schumpeter's theory suffers from following limitations:

(i) It excludes individuals who merely operate an established business without performing innovative functions.

(ii) Innovating entrepreneur represents the most vigorous type of enterprise. However, this type of entrepreneur is rarely available in developing countries like India.

(iii) It laid too much emphasis on innovative functions. But it ignores the risk taking and organizing aspects of entrepreneurship.

(iv) It assumes an entrepreneur as a large scale business man. He is a person who creates something new. But in practice, an entrepreneur cannot have large scale operations from the very beginning,

(v) It fails to provide a suitable answer to question like— why some countries had more entrepreneurial talent than others?

According to Schumpeter, entrepreneurs are not a class in themselves like capitalists and workers. An individual is an entrepreneur only when he actually carries out new combinations and ceases to be an entrepreneur the moment he settles down to running the established business.

According to Schumpeter, an entrepreneur exists only if the factors of production are combined for the first time. Maintenance of a combination is not an entrepreneurial activity. In this way, combination theory differs from the theory of rent formulated by Ricardo. Ricardo included the term "entrepreneurial ability" as an independent factor of production and it is concerned with profit. Thus, this theory fails to provide suitable solutions to the problems.

Theory # 2. Need for Achievement Theory:

This theory was developed by David. C. McClelland. McClelland concerned himself with economic growth and the factors that influence it. In this context, he tries to find the internal factors i.e. "human values and motives that lead man to exploit opportunities, to take advantage of favorable trade conditions." That is why he gives importance to the innovative characteristics of entrepreneurial role. The entrepreneur is concerned with need for achievement (n-achievement).

The n-achievement is called as "a desire to do well, not so much for the sake of social recognition or prestige, but for the sake of an inner feeling of personal accomplishment."

It is this motive of n-achievement that guides the actions of entrepreneur. People with high n-achievement behave in an entrepreneurial way. So it is better to develop n-achievement among individuals to ensure high scale of economic development. In practice, n-achievement motive is inculcated through child rearing practices, which stress standards of excellence, material warmth, self-reliance, training and low father dominance.

McClelland identified two characteristics of entrepreneurship. First doing things in a new and better way. Secondly, decision making under uncertainty.

This motive is called as the tendency to strive for success in situations involving an evaluation of one's performance in relation to some standard of excellence. People having high need for achievement are more likely to succeed as entrepreneurs.

According to McClelland, individuals with high need achievement will not be motivated by monetary incentives but that monetary rewards will constitute a symbol of achievement for them. Similarly, they are also not interested much for social recognition or prestige but their ultimate goal is personal accomplishment. That is why McClelland suggests that in order to raise the level of achievement motivation, parents should set high standards for their children.

Critical Evaluation:

Research studies on the psychological roots of entrepreneurship reveal that high achievement orientation ensures the success of entrepreneurs. But the empirical tools of concept used by McClelland are found to be highly suspect and one wonders how many of the individuals who are judged to have high n-achievement could succeed in utilising it in

practice in the present day developing countries unless strengthened by other reinforcing circumstances.

At the same time, empirical investigations also need the following:

(i) It is necessary to create a climate (especially in educational institutions at various levels) to enable the children to grow to become individuals with high n-achievement.

(ii) It is possible to improve the performance of existing entrepreneurs through imparting proper training and education.

Theory # 3. Status Withdrawal Theory:

E. Hagen attempted to formulate a theory of social change. The theory of social change explains that when members of some social groups feel that their values and status are not respected by the society, they turn to innovation to get the respect of the society. According to Hagen, entrepreneurship is a function of status withdrawal. This theory provides that a class which lost its previous prestige or a minority group tends to show aggressive entrepreneurial drive.

Hagen postulates four types of events which can produce status withdrawal:

(i) Displacement of a traditional elite group from its previous status by another traditional group by physical force.

(ii) Denigration of values, symbols through some change in the attitude of superior group.

(iii) Inconsistency of static symbol with a changing distribution of economic power and.

(iv) Non-acceptance of expected status on migration to a new society.

Hagen further opined that creative innovation or change is the basic feature of economic growth. He describes an entrepreneur as a creative problem shooter interested in things in the practical and technological realm. Such type of individual feels a sense of increased pleasure when facing a problem and tolerates disorder without discomfort.

In traditional societies, positions of authority are granted on the basis of status, rather than individual ability. That is why, Hagen visualised an innovative personality.

There are four responses which assess the personality-

(i) **Retreatist** – One who combines to work in the society but remains indifferent to his work and position.

(ii) **Ritualist** – One who adopts a kind of defensive behaviour and acts in the ways accepted and approved in his society but with no hopes of improving his position.

(iii) **Reformist**- One who foments a rebellion and attempts to establish a new society?

(iv) **Innovator**- A creative individual who is likely to be an entrepreneur.

Innovation requires creativity and such creative individuals cause economic growth. In practice creative personalities emerge when the members of some social groups experience the withdrawal of status respect. Whenever there is any withdrawal of status respect, it would give rise to innovation—a creative individual who is likely to be an entrepreneur.

Critical Evaluation:

The theory acts to distinguish between entrepreneurship and intra-preneurship. There are different factors within the organisation which motivate the executives and professionals to do some innovative behaviour leading to new products and services. Actually, they are not governed by status withdrawal.

The theory only suggests that the people, who had enjoyed social standing at some stage in their histories fall into a retreatist phase and with an urge to regain that lost status emerge as entrepreneurial personality. The theory also presupposes a long term perspective for entrepreneurial growth about three to five generations for the emergence of entrepreneurship.

But actually it does not happen. In India, first generation entrepreneurs are quite successful in their entrepreneurial behaviour. J.P. Gour of Jai Prakash Industries and Sunil Mittal of Bharti group etc. can be cited in this context.

Theory # 4. Theory of Social Change:

It was Max Weber who first of all took the stand that entrepreneurial growth was dependent upon ethical value system of the society concerned. The central figure of the Weber's theory of social change consists in his treatment of the protestant ethic and the spirit of capitalism. Moreover, this theory provides an analysis of religion and its impact on entrepreneurial culture.

Max Weber opined that the spirit of rapid industrial growth depends upon a rationalised technology, acquisition of money and its rational use for productivity and multiplication of money. These elements of industrial growth depend upon a specific value orientation of individuals i.e. the tendency of acquisition and rational attitude towards action which are generated by ethical values.

Weber analysed his theoretical formulation by the relationship that he found between protestant ethic and the spirit of capitalism. He found his thesis true about other communities also, e.g. Hindu, Jain and Juda. He held that Protestants progressed fast in bringing capitalism because their ethical value system provided them with rational economic attitude, while the Jews and Jains failed to develop industrial capitalism because of their value of 'Pariha' (the restriction on having any contact with other communities).

According to this theory, driving entrepreneurial energies are generated by the adoption of exogenously supplied religious beliefs. It is these beliefs which produce intensive exertion in occupational persecutes, the systematic ordering of means to ends and the accumulation of assets.

For people who believe in this belief (Protestant ethic] hard-work in their walk of life is not only to enable them to have their worldly desires met but also to have their spiritual needs satisfied. Thus, in the Weberian system, the motivating force for entrepreneurial activity is provided by Calvinist ethic irrespective of the cultural background, personality type of the individual and the social environment to which he lives.

Critical Evaluation:

The theory of social change propounded by Max Weber is based on the invalid assumptions. So expected results are not valid in all cases.

These assumptions are as follows:

(i) There is a single system of Hindu value.

(ii) The Indian community internalised those values and translated them in to day to day behaviour and

(iii) These values remained immune to and insulated against external pressures and change. The studies further show that Hinduism is not averse to the spirit of capitalism and to adventurous spirit. The Hinduism has contributed a lot in entrepreneurship development in India which is based on capitalism.

Theory # 5. Theory of Social Behaviour:

Kunkel presents a behavioural model of entrepreneurship. Supply of entrepreneurs is a function of social, political and economic structure. Behavioural model concerned with the overtly expressed activities of individuals and their relations to the previous and present surroundings, social structures and physical conditions.

According to Kunkel, Individuals perform various activities of which some are accepted by the society while others are not. The accepted are rewarded. The rewards act as reinforcing stimulus increasing the probability of repeating that behaviour pattern. This pattern of social behaviour is entrepreneurial behaviour. The supply of entrepreneurship depends upon four structures found in a society.

That are as follows:

(i) **Limitation Structure** – The society limits specific activities and this limitation structure affects all the members (including entrepreneurs) of a society.

(ii) **Demand Structure**- Material rewards are necessary to lay the foundation for future social gains. Moreover, behaviour of people can be made entrepreneurial by manipulating certain selected components of the demand structure.

(iii) **Opportunity Structure** – It consists of the availability of capital, management and technological skills, information concerning production methods, labour and markets.

(iv) **Labour Structure** – It is concerned with the supply of competent and willing labour. The supply of labour is governed by several factors such as available alternative means of livelihood, traditionalism and expectations of life.

Critical Evaluation:

The theory assumes the ideal structures for the supply of entrepreneurs. But, generally, there is discrepancy between objectives, structures and the actual incidence of entrepreneurs. It is due to the fact that there are inadequate or incorrect perceptions attached with these perceptions. In practice, entrepreneurship is also governed by the specific combinations of circumstances which are generally not available in the environment.

Theory # 6. Theory of Leadership:

According to Hoselitz, entrepreneurship is a function of managerial skills and leadership. Business also requires finance but that is of secondary importance. He further explains that a person who is to become an industrial entrepreneur must have more than the drive to earn profits and amass wealth.

In this process, he has to show his ability to lead and manage. In business, there are generally three types of leadership—merchant money lenders, managers and

entrepreneurs. In practice, money lenders are market oriented and managers are authority oriented. But entrepreneurs have in addition to these a production orientation.

The merchant money lenders deal in goods/services which is generally acceptable to everyone. However, an entrepreneur creates his own commodity and its acceptability is uncertain. Therefore, the entrepreneur assumes more risk as compared to a trader or a money lender.

In this context, it is important to note that making profit is not enough to succeed in entrepreneurship. Hoselitz opined that entrepreneurship can develop in a society where its culture permits a variety of choices and where social processes are not rigid. The social conditions should ensure the development of enterprise-oriented personalities.

Hoselitz emphasised the role of culturally marginal groups like Jews and Greeks in Medieval Europe and the Lebanese in West Africa, the Chinese in South Asia, the Indians in West Africa in promoting economic development.

Making use of the work of Stonequist and Park, Hoselitz formulated the hypothesis that marginal men, because of their ambiguous position from a cultural or social stand point, are peculiarly suited to make creative adjustments in situations of change and in the course of this adjustment process too, they are able to develop genuine innovations in social behaviour.

Critical Evaluation:

It is quite true that marginal men or groups enjoying an ambiguous culture and social position having no bondage of tradition to inhibit them from entrepreneurship development. But there are certain economic and political factors also which encourage the people to initiate entrepreneurial behaviour.

For example, Government of India and State Governments are trying to encourage first generation entrepreneurs by offering them various types of incentives and subsidies. Potential entrepreneurs are also opting for enterprise development without cringe for social or cultural restrictions.

Theory # 7. Theory of Model Personality:

The theory of Cocharn is a sociological theory of entrepreneurial supply. Cocharn emphasises cultural values, role expectations and social sanctions as the key elements that

determine the supply of entrepreneurs. According to him, an entrepreneur is neither a super normal individual nor a deviant person but represents a society's model personality.

His performance is influenced by three factors:

(i) His own attitudes towards his occupation.

(ii) The role expectations held by sanctioning groups and

(iii) The operational requirements of the job. In this context, society's values are the most important determinant of the attitudes and role expectations.

Critical Evaluation:

The theory deals with only social factors. Profit is the most important factor for encouraging entrepreneur to assume risky behaviour. Even need for achievement starts from profit making process. It is implied in need for achievement process. Besides, entrepreneur is also expected to assume managerial functions. But theory fails to incorporate all these requirements.

Theory # 8. Theory of Systematic Innovation:

Prof. Drucker has developed the theory of systematic innovation. According to him "Systematic innovation consists in the purposeful and organised search for changes and in the systematic analysis of the opportunities such changes might offer for economic or social innovation." Specifically, systematic innovation means seven sources for innovative opportunity.

The first four sources lie within the enterprise, whether business or public service institution, or within an industry or service sector. They are therefore visible primarily to people within that industry or service sector. They are basically symptoms. But they are highly reliable indicators of changes that have already happened or can be made to happen with little effort.

These four source areas are:

(i) **The unexpected**—the unexpected success, the unexpected failure, the unexpected outside event;

(ii) **The incongruity**—between reality as it actually is and reality as it is assumed to be or as it ought to be;

(iii) **Innovation** based on process need;

(iv) **Changes in industry structure** or market structure that catch every one unawares.

The second set of sources for innovative opportunity, a set of three involves changes outside the enterprise of industry-

(i) Demographics (Population changes);

(ii) Changes in perception, mood and meaning;

(iii) New knowledge, both scientific and non-scientific.

Prof. Drucker, further remarked that the lines between these seven sources areas of innovative opportunities are blurred, and there is considerable overlap between them. They can be likened to seven windows each on a different side of the same building. Each window shows some features that can also be seen from the window on either side of it. But the view from the center of each is distinct and different.

Critical Evaluation:

The theory of systematic innovation is quite comprehensive one. The entrepreneur is required to identify different sources of change. Thereafter, he is expected to coordinate these changes with the opportunities available in the environment. But the most important problem attached with this theory is the question of reliability and predictability of seven sources.

For example, new scientific knowledge is not the most reliable or most predictable source of successful innovations. However theory tries to provide a comprehensive framework to the entrepreneurship.

Thus, on the basis of above theories, we can say that entrepreneurship is a multidisciplinary area. Actually, entrepreneurship is governed by human factor living in an ever-changing society pursuing simultaneously economic, social and psychological objectives. So unless a theory of entrepreneurship is woven into sociological, cultural, psychological, political and managerial fibre, it cannot give a sense of economic web.

STAGES IN ENTREPRENEURIAL PROCESS

Discovery:

An entrepreneurial process begins with the idea generation, wherein the entrepreneur identifies and evaluates the business opportunities. The identification and the evaluation of opportunities is a difficult task; an entrepreneur seeks inputs from all the persons including employees, consumers, channel partners, technical people, etc. to reach to an

optimum business opportunity. Once the opportunity has been decided upon, the next step is to evaluate it.

An entrepreneur can evaluate the efficiency of an opportunity by continuously asking certain questions to himself, such as, whether the opportunity is worth investing in, is it sufficiently attractive, are the proposed solutions feasible, is there any competitive advantage, what are the risk associated with it. Above all, an entrepreneur must analyze his personal skills and hobbies, whether these coincides with the entrepreneurial goals or not.

Developing a Business Plan:

Once the opportunity is identified, an entrepreneur needs to create a comprehensive business plan. A business plan is critical to the success of any new venture since it acts as a benchmark and the evaluation criteria to see if the organization is moving towards its set goals.

An entrepreneur must dedicate his sufficient time towards its creation, the major components of a business plan are mission and vision statement, goals and objectives, capital requirement, a description of products and services, etc.

Resourcing:

The third step in the entrepreneurial process is resourcing, wherein the entrepreneur identifies the sources from where the finance and the human resource can be arranged. Here, the entrepreneur finds the investors for its new venture and the personnel to carry out the business activities.

Once the funds are raised and the employees are hired, the next step is to initiate the business operations to achieve the set goals. First of all, an entrepreneur must decide the management structure or the hierarchy that is required to solve the operational problems when they arise.

Harvesting:

The final step in the entrepreneurial process is harvesting wherein, an entrepreneur decides on the future prospects of the business, i.e. its growth and development. Here, the actual growth is compared against the planned growth and then the decision regarding the stability or the expansion of business operations is undertaken accordingly, by an entrepreneur.

The entrepreneurial process is to be followed, again and again, whenever any new venture is taken up by an entrepreneur, therefore, its an ever ending process

TRAITS OF AN ENTREPRENEUR

1. Vision and Passion

An entrepreneur must have a very clear vision of his business. So he must have the ability to plan out his long term and short term goals and objectives. He has to be able to map out his future plans in an articulate and efficient manner.

Another very important trait necessary in an entrepreneur is that he must be passionate about his work. Entrepreneurship is hard work and long hours, so he must be passionate about what he is doing. Such passion can translate into hard work and success.

2. Innovative

One of the main characteristics of entrepreneurship is innovation. The entrepreneur looks for the opportunity in the market and capitalizes on it.

He is the one who introduces new products and services in the market trying to fulfil customer needs. The innovation can also be in a production process, new marketing strategy, innovative advertising etc.

3. Risk Taker

A risk is an integral part of any new business. But it is an especially important factor in entrepreneurship because here the entrepreneur bears the entire risk of the business. So it is necessary that the entrepreneur has an adventurous and risk-taking personality.

4. Leader

One of the other important qualities of a successful entrepreneur is leadership. All good entrepreneur are good leaders.

They have the ability to motivate and lead their employees to success. They also have the tenacity, knowledge, and skill to pull their businesses from a tight corner like good leaders.

5. Persistent

A good entrepreneur is always persistent by nature. A business is never an overnight success. It takes immense hard work and also a little bit of luck.

But a persistent entrepreneur makes his own luck. He can create opportunities if they are not presented to him. So a persistent entrepreneur that works tirelessly always has a greater chance of success.

6. Ethical

Ethics and integrity are the cornerstones of any successful business in the long term. A sustainable business cannot be run by someone with compromised morals.

So any credible business must have at its head an ethical entrepreneur who upholds the letter of the law and the integrity of the business.

7. Competitive Spirit

The business world is a very cut-throat space. Thousands of new businesses born and die every day. So the competition is always going to be fierce and intense.

Such an environment is better suited to someone who is already competitive by nature and thrives in such situations of pressure.

8. Resilient

And finally one of the most important traits in a successful entrepreneur is resilience. There is no smooth straightforward path to success.

There will always be some failures and roadblocks in the way. So the entrepreneur has to be resilient and steadfast in his pursuit of success.

UNIT II

FACTORS AFFECTING ENTREPRENEURIAL GROWTH

Entrepreneurship is essential for the development of any economy. Countries which have flourished attribute their rise to the growth of entrepreneurship. Therefore, governments and people all over the world want to encourage this concept.

Political Factors

Political factors play a huge role in the development of entrepreneurship in a given geographical area. This is because politicians decide the type of market that is in place. The market could be capitalistic, communist or some countries have adopted a mixed economy. Each of these three markets has very different implications for the way in which entrepreneurs are required to function. Capitalism requires breakthrough innovation whereas communism requires entrepreneurs to be well connected with the political class. Therefore, it has been observed that the more capitalistic any country is, the more entrepreneurship flourishes in the region.

Legal Factors

Entrepreneurs are dependent upon law for a wide variety of factors. The strength and fairness of the legal system of a nation affect the quality of entrepreneurship to a large extent. This is because entrepreneurs require a wide variety of legal services to function. For instance, entrepreneurs would require the courts to enforce the contracts that were entered to between parties. In many countries such contracts are not enforceable and therefore the resultant risk prohibits the development of entrepreneurship. Then again, the entrepreneurs are dependent on the courts for the protection of their property rights. Also, many advanced countries have noticed that the provision of declaring bankruptcy has been positively associated with the development of entrepreneurship. Entrepreneurs do fail a few times before they find the right innovation that leads to their success. The United States is amongst the countries with the highest rate of entrepreneurial development and it is also known to have one of the most advanced bankruptcy laws! Even business legends like Henry Ford had declared bankruptcy in their early days.

Taxation

The government can also influence a high degree of control on the market through provisions of taxation. Some amount of taxation is necessary for the government to maintain the legal and administrative systems in place for the entire economy. However, a

lot of times governments resort to excessive taxation. They usually adopt the policy of beggaring the rich and giving it off to the poor. This goes against the basic tenets of entrepreneurship which believes in survival of the fittest. Therefore, countries where tax regimes are restrictive find an outflow of entrepreneurs. In short, entrepreneurs want to set up shop in places where there is minimal interference from the government.

Availability of Capital

The degree to which the capital markets of a nation are developed also play a huge role in the development of entrepreneurship in a given region. Entrepreneurs require capital to start risky ventures and also require instant capital to scale up the business quickly if the idea is found to be successful. Therefore, countries which have a well developed system of providing capital at every stage i.e. seed capital, venture capital, private equity and well developed stock and bond markets experience a higher degree of economic growth led by entrepreneurship.

Labor Markets

Labor is an important factor of production for almost any kind of product or service. The fortunes of the entrepreneurs are therefore dependent on the availability of skilled labor at reasonable prices. However, in many countries labor has become unionized. They demand higher wages from the entrepreneurs and prohibit other workers from working at a lower price. This creates an upward surge in the costs required to produce and as such has a negative effect on entrepreneurship.

With the advent of globalization, entrepreneurs have witnessed the freedom to move their operations to countries where labor markets are more favorable to them. This is the reason why countries like China, India and Bangladesh have witnessed a huge rise in entrepreneurial activity in their countries.

Raw Materials

Just like labor, raw material consisting of natural resources is also an essential product required for any industry. In some countries this raw material is available through the market by paying a fair price. However, in some countries seller cartels gain complete control over these natural resources. They sell the raw materials at inflated prices and therefore usurp most of the profit that the entrepreneur can obtain. Therefore, countries

where the supply of raw material faces such issues witness depletion in the number of entrepreneurial ventures over time.

Infrastructure

Lastly, there are some services which are required by almost every industry to flourish. These services would include transport, electricity etc. Since these services are so basic, they can be referred to as the infrastructure which is required to develop any business. Therefore, if any country focuses on increasing the efficiency of these services, they are likely to impact the businesses of almost all entrepreneurs in the region. Therefore, countries which have a well developed infrastructure system witness high growth of entrepreneurship and the opposite is also true.

ENTREPRENEURSHIP DEVELOPMENT PROGRAMS AND ITS EVALUATION

Entrepreneurship Development Programmes (EDP)

A well known behavioral scientists David McClelland at Harvard University made an interesting investigation into why certain societies displayed greed creative power? Is whether entrepreneurs are born or made?. He found that the 'need for achievement' was the answer to the question.

'Motive people to work hard leads to achievement'. According to the scholars, Money making is incidental whereas the measurement of achievement is valid.

Experimental study (Kakinada)

He conducted a 5 year experimental study in one of the prosperous district of Andhra Pradesh in India in collaboration with small industry extension and training institute (SIET). His experiment is popularly called as 'Kakinada Experiment'.

Under the experiment, young employees/persons are selected and put through a three month training program and motivated to see fresh goals. One of the signi cant conclusion of the experiment was that the traditional believes did not seem to inhibit. An entrepreneurs and that the suitable training can provide the necessary motivation to the entrepreneurs.

The achievement motivation had a positive impact on the performance of entrepreneurs. The Kak-inada experiment could be treated as 'Precursor to the present day EDP' inputs on behavioral aspects.

1971 - First massive program of ED embarked in India.

At present, 686 All India and state level FI and public sector banks had so far conducted EDPs in hundreds giving training to the candidates in thousands.

Example:

Junior Achievement - USA

Young Enterprises - UK

Objectives of EDPs:

1. **Develop and strengthen their entrepreneurial quality (i.e.,) motivation or need for the achievement.**
2. **Analyze environmental setup relating to small industry and small business.**
3. **Select product**
4. **Formulate project for the product.**
5. **Understand the process and procedure involved in setting up an small enterprise.**
6. **Know the sources of help and support available for starting a small scale industry.**
7. **Acquire the necessary managerial skills required to run a small enterprise.**
8. **To know the pros and cons in becoming an entrepreneur.**
9. **Appreciate the needed entrepreneurial disciplines.**

Important objectives:

1. Let the entrepreneur himself/herself set or reset objectives for his/her business and strive for the realization.
2. Prepare him/her to accept the uncertainty involved in running a business.
3. Enable him/her to take decision.
4. Enable to communicate clearly and e ectively.
5. Develop a broad vision about the business.
6. Make him subscribe to industrial democracy
7. Develop passion for integrity and honesty
8. Make him learn compliance with law.

Course contents and curriculum of EDPs:

The course content of an EDP are selected in line with the objectives of the EDPs. The training program is usually to six weeks duration. It consists of the following six inputs:

1. General Introduction to Entrepreneurship:

Participants are exposed to a general knowledge of factors a ecting small scale industries, the role of En-trepreneurs in economic development Entrepreneurial behavior and the facilities available for establishing small scale industries.

2. Motivation Training:

Induces and increases the needs for achievement among the participants. It is the crucial input of En-trepreneurship training. It injects con dence and positive attitude and behavior among the participants towards business sometimes successful Entrepreneurs are also invited to speak about their experience in setting up and running a business.

3. Management skills:

Running a business whether large or small requires the managerial skill participants will be imported with basic and essential managerial skills in the functional areas like marketing, nance, HR and production. It helps to run business smoothly.

4. Support system and procedure:

The participants also needed to be exposed to the support available from di erent institutions and agencies for setting up and running small scale enterprises.

5. Fundamentals of project feasibility study:

Participants are provided guidelines on the e ective analysis of feasibility or viability of the particular project in view of marketing, organization, technical, nancial and social aspects knowledge is also given how to prepare the projects or feasibility report for certain products.

6. Plant Visits:

In order to familiarize the participants with real life situation in small business, plant visits are also arranged such trips help the participants know more about an Entrepreneur's behavior, personality, thoughts and aspirations.

On the whole, the ultimate objective of Entrepreneurship training program is to make the trainees prepared to start their own enterprise after the completion of the training program.

Phases of EDP's

An Entrepreneurship development program consists of the following three phases:

- **Pre-training phase**
- **Training phase**
- **Post-training phase**

1. Pre - Training Phase:

The activities and preparations required to launch the training program come together in the phase.

- **Selection of Entrepreneurs**
- **Arrangement of infrastructure**
- **Tie-up of guest faculty for the training purpose.**
- **Arrangement for inauguration of the program**
- **Selection of necessary tools, techniques to select the suitable Entrepreneurs**
- **Formation of selection committee for selecting trainees.**
- **Arrangement for publicity media and campaigning for the program.**
- **Development of application form.**
- **Finalization of training syllabus.**
- **Pre-potential survey of opportunities available in the given environmental conditions.**

2. Training Phase:

The main objectives of this phase's to bring desirable change in the behavior of the trainees. In other words, the purpose of training is to develop 'need for achievement' (i.e.,) motivation among the employees/trainees. Accordingly, a trainer should see the following changes in the behavior of the trainees.

1. Is he/she attitudinally tuned very much towards his/her proposed project ideas
2. Is the trainee motivated to plunge in to Entrepreneurial career and bear risk involved in it.
3. Is there any perceptible change in his Entrepreneurial attitude, outlook, skill, role etc.
4. How should he/she behave like an Entrepreneur?
5. What kind of Entrepreneurial traits the trainee lacks the most.
6. Whether the trainee possesses the knowledge of technology, resources and other knowledge related to Entrepreneurship?

7. Does the trainee possess the required skill in selecting the viable projects, mobilizing the required resources at right time.

Having trained the trainees, the trainees need to ask themselves as to how much and how far the trainees have moved in their Entrepreneurial pursuits.

3. Post- Training phase (Follow up):

The ultimate objective of the Entrepreneurship development program is to prepare the participants to start their enterprises. This phase involvement assessment to judge how far the objectives of the program had been achieved, thisis called Follow up.

In nutshell, the purpose behind the EDP follow up is to:

1. Review the pre-training work.
2. Review the process of training program
3. Review post training approach.

Evaluation of EDP:

Evaluation of EDP is necessary to see whether the objective of EDP's is ful lled or not. In simple words, there is a need to have a look into how many participants have actually started their own enterprises after completing the training. This calls for evaluation of EDPs.

So far 16 evaluation studies have been conducted by various organizations and individual researchers. The most recent and nationwide evaluation study on EDPs is carried out by a ED institute of India Ahmadabad.

It is observed that one out of every four actually started his/her enterprise after undergoing En-trepreneurial training.

Blocked - 10%

Given up - 29% (idea of launching)

430 trainees - cannot be contacted

However, the performance of EDPs across the states and across the ED organization have not been uniform. This non-impressive performance lies the need for looking at the problems and constraints of EDP's.

Problem faced by EDP:

1. Trainer - motivations are not found upto the mark in motivating the trainees to start their own enterprises.

2. ED organization lack in commitment and sincerity in conducting the EDPs.

3. Non-conductive environment and constraints make the trainer - motivators role in effective.

4. The antithetic attitude of the supporting agencies like banks and nancial institutions serves as stumbling block to the success of EDPs.

5. Selection of wrong trainees also leads to low success role of EDPs.

'Problems are not with the strategy but with its implementations'.

One way of evaluating the EDPsis to assess their e ectiveness in developing 'Need for Achievement' among the Entrepreneurs. This is also called 'the qualitative evaluation' of EDP. The behavioral scientists used the following criteria to assess the e ectiveness of EDPs in motivating the Entrepreneurs.

1. Activity level of the respondents
2. New enterprise established
3. Total investments mode
4. Investments in asset made
5. Number of peoples employed
6. Number of jobs created
7. Increase in product development
8. Increase in sales
9. Quality of product/services improved
10. Quicker repayment of loans.

The Entrepreneurial behavior is measured on the following four dimensions.

1. Planning orientation
2. Achievement orientation
3. Expansion orientation
4. Management orientation

Institutional support to small entrepreneurs

SIDO (Small Industries Development Organization)

SIDO is a subordinate office of the department of SSI and ARI. It is an apex body and monitoring the policies for formulating, coordinating and monitoring the policies and programmes for promotion and development of small scale industries. The main functions

of SIDO are classified into (1) Coordination - To evolve national policies, to coordinate between various govts. Coordinate the programmes for the development of industrial estates. (2) Industrial development - To reserve items for production by small scale industries, render required support for the development of ancillary units (3) Extension - To improve technical process, production, selecting appropriate machinery, preparing factory layout and design.

NSIC (National Small Industries Corporation Ltd)

NSIC an enterprise under the union ministry of industries, was set up in 1955 to promote, aid and foster the growth of small scale industries in the country, to provide machinery on ire-purchase scheme to SSI, to provide equipment leasing facility, to help in export marketing of the provided products of SSI, to participate in bulk purchase programme of the Government, to impart training in various industrial trades, to undertake the construction of industrial estates.

SSIB (Small Scale Industries Board)

The government of India constituted a SSIB in 1954 to advice on development of small scale industries in the country. SSIB is also known as central small industries board. SSIB is created to facilitate coordination and inter institutional linkages. It is an apex advisory body to render service, advice to the government to all issues pertaining in the development of SSI. 'Industrial minister is the Chairman'.

SIDC (State Small Industries Development Corporations)

SSIDC were set up in various states under the companies act 1956, as state government undertaking to cater to the primary developmental need of the tine, village industries in the state union territories under this jurisdiction.

Important functions are (i) to procure and distribute scarce raw materials (ii) to supply machinery on hire purchase system (iii) to provide assistance for marketing of the products of SSI. (iv) to construct industrial estates/ sheds, providing allied infrastructure facilities and their maintenance.

SISIs (Small Industries Service Institutes)

The SISIs are set up to provide consultancy and training to small entrepreneurs both existing and prospective. The main functions are,

To serve as interface between central and state government To render technical support services

To supply promotional programmes To conduct EDP programmes

DICs (The District Industries Centres)

DICs was started on May 8, 1978 with a view to provide integrated administrative framework at the distinct level for promotion of small scale industries in rural areas.

Functions : The DICs role is mainly promotional and development (i) To conduct industrial potential surveys keeping in view the availability of resources in terms of material and human skills, infrastructure demand for product etc. To prepare techno-economic surveys and identify product lines and then to provide investment advice to entrepreneurs. (ii) To prepare an action to effectively implement the schemes identified. (iii) To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment sources of supply and procedure for procuring imported machinery.

TCO (Technical Consultancy Organization)

A network of technical consultancy organizations was established by the All India Financial Institutions in the seventies and eighties in collaboration with the state level financial and development institutions and commercial banks to cater to the consultancy needs of small business and new entrepreneurs.

Financial Institutions:	**SFCs**
Commercial banks	**SIDBI**
IDBI	**EXIM BANK**
IFCI	**SSIDC**
ICICI	**NSIC**
LIC	**SIDO**
UTI	**SSIB**
INDUSTRIAL ESTATES	**SSIDC**
	SISIs
	DICS

EFFECT OF GOVERNMENT POLICIES ON ENTREPRENEURSHIP

Role of Government in Promoting Entrepreneurship

1. **Provide a fair legal system**: The Government should provide a fair legal system with strong property rights and contract law, and an orderly bankruptcy system that reassures lenders and enables failed entrepreneurs to get back on their feet.

2. **Streamline business registration**: The average time it takes to open a small business varies dramatically around the globe. New Zealand wins, with an average half-day and one official procedure to register a business. In Venezuela, it takes 114 days and seventeen procedures—seventeen opportunities for delay and corruption. The U.S. ranks twentieth, averaging five days and six procedures. However, in India, it takes years to register a business as corruption is rampant in India in every department.

3. **Encourage a diverse funding universe**: Entrepreneurship experts say it's more important to have multiple money streams than one giant pipeline. Government can encourage development of new capital sources—such as equity crowd funding and peer-to-peer lending. The 2012 JOBS Act, for example, provided new exemptions that enabled small businesses to use crowd funding to raise money.

4. **Enforce strong intellectual property laws**: Government as well as private organizations need to enforce strong intellectual property laws for paving a way for entrepreneurs to start up their ventures. For example: Microsoft might never have succeeded if IBM hadn't licensed the fledgling company's operating system—a deal made possible by intellectual property law.

5. **De- Stigmatize business failure:** Countries that do so experience higher rates of business formation. The European Commission Competitiveness Council reports: ―Failed entrepreneurs are a precious resource. Due to experience, failure rates of second start-ups are lower. We should support entrepreneurs and give them a second chance.‖

6. **Invest in education**: Development experts agree that government investment gets the biggest bang for the buck in education. Over a third of America's universities are now partnering with small-business incubators to generate new businesses. In addition, we should provide entrepreneurship education to our high-school students.

7. **Simplify tax laws**: Countries that offer favorable tax rates, simplify procedures, and provide entrepreneurial support will enjoy high numbers of start-ups. Therefore, it is need of the hour to simplify tax laws to enable individuals to start their own ventures.

Economic development of a country is supported by entrepreneurship in several ways. It is a key contributor to innovativeness and product improvement and a pivotal ingredient to employment creation. Another important aspect to be considered is that in the context of the Indian market, entrepreneurship led economic growth is more inclusive and hence Governments, both at Centre and State level, have been taking initiatives to boost the entrepreneurial ecosystem as they realize the benefits entrepreneurship brings to the economic growth of the country.

Economic slowdown is one of the reasons that has led to a downturn in employment opportunities in the country. Unemployment amongst the youth is on the rise and in this regard entrepreneurship is playing a key role in creating jobs. An entrepreneur is not just creating self employment but also building a structure for small to large scale employment. As these enterprises grow, the employment opportunities increase. In India, many start-ups that started out as home based ventures are today employers to hundreds of individuals. A company/entrepreneur with an innovative-idea has the power to build employment and in turn stimulate the economy

THE NATURE OF INTERNATIONAL ENTREPRENEURSHIP:

As more countries become market oriented and developed, the distinction between foreign and domestic markets is becoming less pronounced. International entrepreneurship is the process of an entrepreneur conducting business activities across national boundaries. It is exporting, licensing, or opening a sales office in another country. When an entrepreneur executes his or her business in more than one country, international entrepreneurship occurs.

THE IMPORTANCE OF INTERNATIONAL BUSINESS TO THE FIRM:

International business has become increasingly important to firms of all sizes. The successful entrepreneur will be someone who understands how international business differs from domestic business and is able to act accordingly.

INTERNATIONAL VERSUS DOMESTIC ENTREPRENEURSHIP:

Whether international or domestic, an entrepreneur is concerned about the same basic issues-sales, costs, and profits. What varies is the relative importance of the factors being considered. International entrepreneurial decisions are more complex due to uncontrollable factors such as the following Economics: A domestic business strategy is designed under a single economic system. Creating a business strategy for multiple countries means dealing with different levels of economic development and different distribution systems. Balance of Payments: A country's balance of payments affects the valuation of its currency. This economic variable will affect how companies do business in other countries. Type of System: Types of System Barter or third-party arrangements have been used to increase business activity with the Commonwealth of Independent States, the former U.S.S.R. There are still many difficulties in doing business in developing and transition economies due to:

a. Gaps in the knowledge of the Western system regarding business plans, marketing, and profits

b. Widely variable rates of return.

c. on-convertibility of the ruble.

d. Differences in the accounting system.

e. Nightmarish communications

Political-Legal Environment:

Multiple political and legal environments create different business problems. Each element of the international business strategy can potentially be affected by multiple legal environments. Laws governing business arrangements also vary greatly in the 150 different legal systems and sets of national laws.

Cultural Environment:

The impact of culture on entrepreneurs and strategies is significant. Understanding the local culture is necessary when developing worldwide plans.

Technological Environment:

Technology varies significantly across countries. New products in a country are created based of the conditions and infrastructure of that country.

UNIT III

ROLE OF SME'S IN INDIAN ECONOMY

Introduction to Indian SMEs

There is a silent revolution happening in India. In fact, if you look around the corner, you may just about get a glimpse of an India that is changing right before your eyes. This is the India powered by SMEs, more commonly known as Small & Medium Enterprises.

When we talk about companies that drive change, it is always the larger corporations that come to mind. Billion dollar businesses that are driven to change, and may be even disrupt the existing business models & practices. On the other hand, the SME sector with about 36 million units, each trying to push the envelope a little further. It seems as if a few million drops of water have joined together to form an ocean of change.

SMEs are defined differently in different parts of the world depending upon their net worth, assets, employee strength, shareholders, and funding structure, etc. In India, SMEs are classified into two main categories, based on the nature of business. These categories are:

Manufacturing Enterprises: Which are engaged in the production of goods (pertaining to any industry), within this, the enterprises are classified based on their investment levels, such as:

Micro: Upto INR 25 Lacs

Small: Above INR 25 Lacs, but less than INR 5 Crores

Medium: Above INR 5 Crores, but less than INR 10 Crores

Services enterprises: Which are engaged in rendering of services (in terms of investment in equipment). Within this, the enterprises are classified based on their investment levels such as:

Micro: Upto INR 10 Lacs

Small: Above INR 10 Lacs, but less than INR 2 Crores

Medium: Above INR 2 Crores, but less than INR 5 Crores

Role of SMEs in the Indian Economy

SMEs employ around 40% of India's workforce, which is an estimated 80 million people, who are given an opportunity for livelihood and employment via low-skilled jobs. Around 1.3 million SMEs contribute 45% to India's manufacturing output and 40% of India's total export. In a way, they form the backbone of the Indian economy. At 48 million, India has the

second largest number of SMEs in the world, edging close to China which has around 50 million SMEs.

There are around 6000 products manufactured by 31.7% SMEs while the remaining 68.2% are engaged in delivering various services. This sector, if extended the right support, has the potential to spread industrial growth throughout the country.

Despite employing 40% of India's workforce, SMEs are also the bane of India's economic problems. Though the volume numbers work in their favor, they currently contribute to about 17% of India's GDP.

Challenges Faced by Indian SMEs

MAny SMEs are reluctant to grow, resulting in reduced productivity. Others cling firmly to the concept of staying small and comfortable – thereby avoiding regulatory and taxation related hurdles.

Those who choose to grow, have a different set of problems to deal with – starting with financing. In an earlier survey conducted with over 15000 listed and unlisted companies from diverse sectors such as textile, power, agriculture and IT&ITES, a common trend showed that SMEs' exposure to bank credit was drastically falling due to the high interest rates.

Another reason to shun bank credit, originates due to repayment timelines. While most big companies who buy from SMEs get an interest-free repayment timeline of 120 days, SMEs get only 60 days to pay back their interest-loaded bank loans. Because of this, most SMEs have now chosen to reduce their exposure to bank credit.

In addition, individual sectors face their own challenges. Real estate, for example, saw a slowdown in the past few years after a decade of growth. Similarly, exports have also seen a quarter-on-quarter reduction as demand has been slowing in European countries, and disturbances in West Asian countries have caused the tables to turn unfavorably for SMEs.

Because these companies are not market leaders in their segments, they are unable to hold a bargaining power in the price battle. They struggle to maintain quality while coping with reducing profit margins. Supply chain inefficiencies, global and local competition and insufficient skilled manpower can choke out SMEs that aren't ready to take the bull by the horns and create their own path for growth.

Exploring Financing Opportunities for SMEs

One of the key ways to ensure the survival of SMEs is to make sure they don't run out of financing options.

Alternative funding options for SMEs:

Foreign Banks: A healthy competition can be a win-win for most people, especially customers. In this case, bringing down restrictions on foreign banks on extending their number of branches can work in favor of SMEs, who may then see an influx of local banks clamoring for attention. Foreign banks are currently allowed to open only 12 branches a year. Change this to a 100 and see the magic work in favor of SMEs.

Equity Funding: This type of funding has been a great success with startups, and it works well especially if you plan to bring in senior management who can help in significantly improving revenue & market share over a relatively short period of time.

Debt Funding: Stepping away from known banks and exploring other debt funding options may work well for SMEs. Depending on business size, age, etc. the government has formulated schemes like collateral free loans up to INR 1 Cr.

Mezzanine Debt Funding: This is a mix of equity and debt funding now offered by domestic as well as foreign investors

LIBOR for Exports: Pre-shipment and post-shipment credits for exporters are available in LIBOR based regimes that offer highly competitive interest rates.

NBFC Loans: There are a few NBFCs which currently offer debt-backed PE funding for SMEs

Grants: India has developed bilateral trade ties with other countries where the trade/ finance associations offer grants to proven sectors, to gain an advantage from their growth. (Example: Renewable & Clean Energy, etc.)

SMEs & Technology

SMEs have been accused of living in an obsolete era in terms of technology. Access to internet, resources, virtual skilled workers and client opportunities can help them grow by leaps and bounds. They are now waking up to the fact that technology and culture of innovation can be high potential growth drivers. In a recent global study with Oxford Economics over 2300 SME executives, over 60% agreed that tech can be a key differentiator for their SME and over one third agreed that creating a culture of innovation is a top priority in their strategic growth plan.

Tech can be used in multiple spheres. It can make SMEs agile, improve innovation, fortify customer relationships and help explore new markets while reducing the cost of expansion. Specifically speaking, Big Data Analytics and MobiTech were named as the two biggest drivers of change.

MobiTech: World over, as businesses move from being product-centric to customer-centric, it has become increasingly important for SMEs to focus on enterprise mobility as a key driver of innovation. Using mobile tech efficiently, helps to drive better customer experiences, especially for B2C SMEs in retail. For example, mobile apps can change the way SMEs do business. They can enable streamlining order flow, forecasting warehouse inventory & allow for better communication processes.

Cloud Computing: Using the Cloud to handle a substantial chunk of their IT related aspects can be a great way for SMEs to save on IT costs, and instead use these savings to drive product innovation. This would allow SMEs to scale and gain expertise from any part in the world without having to invest in infrastructure and offices. It helps streamlining sales, inventory and financials especially for SMEs without huge capital reserves.

Big Data & SMEs: Analytics can be a great way to know more about your customers, and will allow you to gain insights on what your customers are buying, how they're buying it (or not) and where exactly in the sales funnel are they dropping off. All this information can help in creating a better customer experiences and nurture leads to close sales.

Exclusive Telecom for SMEs: In recent years, many telecom technologies like VoIP, WiFi and other Compression Technologies have become affordable for SMEs. Telecom companies did take a bit of time understand the price-sensitive SME market, and have started offering technology which can implemented relatively quickly and can be upgraded on demand. One such example is a network service between branch offices which will enable SMEs to save on call costs.

Tech Improvements for the SME Support Systems: It's not just SMEs that need a boost in technology, but also those who offer their services to them. Banks, for example, charge lesser for electronic/ branchless transactions vs. those transactions which are conducted within branch premises.

Government's Role in Promoting SMEs

A few of the recent initiatives by Government of India have a given a boost to SMEs. In a direct move to increase the GDP share of SMEs, the Government has allocated 20,000 Cr to this sector through the Micro Units Development Refinance Agency Bank (MUDRA).

Similarly, in a move to promote 'Zero-Defect' manufacturing that has 'Zero-Effect' on the environment, the Government has set up the performance and credit rating system for SMEs called the ZED rating. SMEs will be classified into bronze, silver, gold, diamond and platinum categories. The idea is to help SMEs grow bigger, gain economies of scale and improve the quality of their products. Here are some of the other popular schemes for SMEs in India.

Credit Guarantee Fund Scheme: Applicable to both existing and new enterprises, this scheme provides collateral-free credit to Indian MSMEs. The ministry in association with SIDBI established the trust that facilitates a working capital loan of up to Rs. 100 Lakh per borrowing unit

Credit Linked Capital Subsidy Scheme for Technology Upgradation (CLCSS): The Ministry of Small Scale Industries (MSSI) created the CLCSS which provides upfront capital subsidy of 15% (max 15 Lakh) to SSI units which can be used for plant & machinery modernization.

Financial Assistance on International Participation: This scheme offers funding to SMEs for participate at international trade fairs, exhibitions and also promotes sector specific market studies by industry associations. It also offers reimbursement of 75% on one-time registration fee and 75% on annual fees (recurring) paid to GSI by SMEs for the first three years for barcode. It also facilitates tech upgradation, creation of joint ventures and foreign collaborations.

Technology & Quality Upgradation Support to SMEs: This scheme helps SMEs gain benefit from energy efficient technologies and manufacturing processes to reduce their carbon footprint. It provides them with 75% expenditure to buy such technologies.

Mini Tools Room & Training Center Scheme: The govt. provides grant / aid that equals to the cost of the machinery/ equipment (max 9 Cr.) to create a new mini tool room and 75% of the cost if an existing room has to be upgraded. The scheme aims to create a skilled workforce which would also benefit the region in the long run.

With low investment requirements, operational flexibility and the capacity to develop appropriate indigenous technology, SMEs have the power to propel India to new heights. Imagine an India that has empowered SMEs to maximize their growth propulsion, resulting in a significant boost to the growth of India as a whole. Looking at the current trends, it's seems as if India may one day overtake China in its SME volume. However, it's crucial for India's SMEs to ramp up the quality of their product offering and transfer benefits to the end consumer.

Starting a business today is a lot simpler than before. There are accelerators, incubators, investors and mentors available to handhold a business to ensure they see the light of day. The ever-growing internet/ mobile penetration have opened up both the international and rural markets like never before. While the atmosphere is rife with challenges it's also ripe with opportunities. The time is right for us as a nation to sow the seeds, and build a support system, which would allow our SMEs to achieve their full potential.

MAJOR CHALLENGES FACED BY SME'S IN INDIA

PRODUCT RELATED CHALLENGES	• Removal of quantity restriction. • Non-conformity of standardization/lack of quality awareness/Poor quality of products . • Product and service range and usage differences. • Complexity of trade documentation including packaging and labeling. • Problems of storage, designing, packaging and Product display/Lack access of packaging technologies. • Introduction of better substitutes
R&D/MANUFACTURING/DISTRIBUTION RELATED CHALLENGES	• Low production capacity. • R&D shortage. • Improper distribution system. • Poor delivery schedules and lack of

	proper distribution system
TECHNOLOGICAL / IPR RELATED CHALLENGES	• Limited communication networks. • Low levels of technology. • Lack of accessibility to information and knowledge. • Lack of accessibility to investment technology equipment and know-how. • Low technology levels and lack of access to modern technology. • Inadequate intellectual property protection.
GOVT.POLICY/ INFRASTRUCTURE RELATED CHALLENGES	• Bureaucracy and red tape. • Lack of government supply-supporting programs. • Delay in getting power connection, water connection, permission of concerned authorities to discharge effluents, etc . • Inadequate physical and economic infrastructure. • The lack of infrastructure, logistics and marketing support.
FINANCE RELATED CHALLENGES	• Poor / non-availability of loan finance • Difficulties accessing financial resources/lack of capital. • Lack of availability of adequate and timely credit. • Limited access to equity capital. • Limited capital and knowledge. • Difficulties in accessing capital.

	• Lack of sufficient finance at affordable interest rates. • Highly inadequate credit flow. • Diversion of working capital funds for acquisition of fixed assets.
MANAGERIAL/MARKETING RELATED CHALLENGES	• Lack of entrepreneurial, managerial and marketing skills/lack of professionally managed top management • Ineffective marketing strategy • Identification of new markets • Constraints on modernization & expansions • Lack of facilities for market analysis • Improper new product development • Non-exposure to best management practices in manufacturing, marketing, distribution and branding • Lack of sales promotion • Lack of adequate information • Entry of many new manufacturers leading to cut– throat competition
LABOR RELATED CHALLENGES	• Lack of skilled manpower for manufacturing, services, marketing, etc. • Multiplicity of labour laws and complicated procedures associated with compliance of such laws. • Non availability of highly skilled labour at affordable cost. • Improper training and poor employee

	management. • Rigid labour markets. • Absence of work force planning, poor industrial relations.
RAW MATERIAL RELATED CHALLENGES	• Procurement of raw material at a competitive cost. • Shortage of raw materials. • Non– availability/ difficulty in procuring construction materials like cement steel etc. • Non– availability of raw materials or increase in the price of raw materials without a corresponding increase in sale price of the products.
EXPORT RELATED CHALLENGES	• Language barriers and cultural differences • Risks in selling abroad • Competition of indigenous SMEs in foreign markets • Inadequate behaviors of multinational companies against domestic SMEs • Lack of access to global markets • Lack of government incentives for internationalization of SMEs • Improper regulatory policies at the entry and exit stages • Infrastructure issues like power tariff and lack of export infrastructure

ROLE OF WOMEN ENTREPRENEUR IN INDIAN ECONOMY

Concept of Women Entrepreneur

With the emergence of women in the field of entrepreneurship, researchers have resorted to arrive at a comprehensive definition of women entrepreneur. Women who take onus to organize and manage the resources of their enterprises and bear all the risks in expectations of deriving profit can be termed as women entrepreneur. This definition portrays women entrepreneurs as conscious decision makers and managers (Coughlin, J. H., & Thomas, A. R., 2002).

Women who chose to pursue the challenging role of an entrepreneur driven by their desire to fulfil their need of independence and achievement. This definition is only applicable to women entrepreneurs who are opportunity driven, i.e. women who resort to entrepreneurship driven by their free will. This definition excludes necessity driven entrepreneurs who are forced to pursue entrepreneurship out of some bare need (Dhameja S. K. 2002).

When a women or group of women embark on initiating, organizing and managing their enterprise, they are termed as women entrepreneur (Suganthi, 2009). Creative activity of initiating and operating a business venture leading to economic empowerment and social betterment of women in the society can be termed as women entrepreneurship. This definition elaborates the positive, social and economic contribution of women entrepreneurship in the society (Munshi, S et al, 2011).

According to the Government of India, woman entrepreneur is the one who assumes dominant financial control (minimum financial interest of 51 per cent of the capital) in an enterprise (Government of India, 2012). Thus it is evident that the definition of entrepreneur can be generalised to women entrepreneur too. Some researchers have defined women entrepreneur possessing unique personality traits, while others have focused on the roles they play as an entrepreneur while the Government of India has regarded financial control as a parameter in defining women entrepreneur.

Based on the synthesis of available literature, women entrepreneurs in Indian context can be defined as women having dominant financial control over their enterprise, who either choose or are driven out of some necessity to take up the challenging role of an entrepreneur and embark towards starting, organizing and managing resources at their

disposal in expectation of earning profits. Women entrepreneurs take conscious decisions in order to manage their enterprise. Women entrepreneurship also leads to social and economic empowerment of women.

Features of Indian Women Entrepreneurs

Women entrepreneurship is more common in younger age groups in comparison to older age groups (Dhameja et al 2000). Women entrepreneurs have diverse educational background (Patole, M., & Ruthven, O., 2002). Majority of the women entrepreneurs belong to lower and middle income group (Vinze, M. D., 1987) and have service oriented enterprises (Gupta, 2013). Women entrepreneurship is now progressing from pickles, papads and powders and becoming visible in fields like engineering (Munshi, S et al, 2011). Women entrepreneurs are now emerging as "techpreneurs" (Charantimath, 2005). Women entrepreneurs were concentrated in traditional and informal sectors of the Indian economy. But over the past decade women entrepreneurs are also diversifying themselves in contemporary and emerging sectors.

Challenges encountered by Indian Women Entrepreneurs

Indian women entrepreneurs are confronted with plethora of challenges. Access to easy and affordable finance and marketing is identified as prominent challenge by majority of women entrepreneurs (Panandikar, 1985). Hefty prices of raw materials, cumbersome procedures of licensing and registration and exclusion from banking and financial services create obstacles for women entrepreneurs (Vinze, M. D., 1987). Women entrepreneurs are often plagued with very weak financial status owing to which they are constrained. Lack of social and family cooperation, illiteracy and unawareness about various government schemes and programs hinder development of women entrepreneurship (Rao, C. H. 1991). Women entrepreneurs often report challenges associated with financial, labor and marketing problems (Chandra, 1991). Lack of cash flow and working capital, lack of manufacturing experience and burden of household responsibilities pose a serious challenge to women entrepreneurs of India (Das, M. 1999). Social conditioning renders women to be shy, introvert and more concerned with family obligations. Shyness in business interactions , low achievement motivation, risk averse attitude, lower level of education, burden of family obligations, gender bias at the level of family and society, lack of managerial skills and experience, lack of business related information, non availability of

finance are some of the challenges, (Singh S. & Saxena, S. C. 2000). Challenge of easy and affordable working capital and equity finance, poor marketing support, and infrastructural obstacles pose prominent challenge to women entrepreneurship (Ganesan, et al 2002). A range of social, personal, marketing, mobility, government support, financial, production and labor related problems, stress of work life balance and poor technical expertise are reported as main challenges faced by women entrepreneurs (Dhameja, S. K. 2002). Striking work life balance, poor self confidence, lack of business related knowledge, shyness and reluctance in business dealings, lack of formal finance due to insufficient collateral, marketing problems, and scarcity of business premise are common challenges (Sinha, P. 2003). Some of the constraints encountered by women are exclusive to them (gender specific) while some of the constraints are faced by entrepreneurs irrespective of gender (gender neutral) (Munshi S et al 2011). Women entrepreneurs in India are confronted with a wide array of challenges in their careers. Availability of venture and working capital emerges as the top challenges confronted by women entrepreneurs. Safe and affordable access to markets is another concern. Infrastructural bottlenecks, lack of advisory and business development support services, unawareness regarding existing provisions of government support and lack of social conditioning conducive for women's entrepreneurial personality strongly impede development of women entrepreneurship in Indian context.

Ten core areas that need to be focused in order to promote women entrepreneurs in India:

• Policy leadership and coordination focussing on women as separate segment of clients.

• Legal and regulatory policies supportive of women entrepreneurs.

• Promotion policies of governments for women entrepreneurs

• Access to Credit and Financial Services • Access to enterprise education and training

• Access to business development and business information

• Access to women enterprise networks and associations

• Access to business premises • Access to markets

• Research on women entrepreneurs Focusing on these core areas of policy can create a conducive environment for women entrepreneurs

Women Entrepreneurship in India

Women entrepreneurship in India is still emerging. The representation of women as entrepreneurs is quite limited. In this section representation of women entrepreneurs in India is analyzed through data available in key government publications.

The ranking of India on parameter of women entrepreneurship according to the Global reports is also very dismal. According to the "Female Entrepreneurship Index Report", 2015 compiled by Global Entrepreneurship Development Institute, India ranked 70 with a low score of 25.3 among 77 countries studied.

India lags behind even African countries, (Terjesen & Lloyd, 2015). According to the Global Entrepreneurship Monitor Report on Women's Entrepreneurship 2016-17, India needs a lot of improvement as far as women entrepreneurial activity is concerned.

Total early stage entrepreneurial activity in Indian females is only 7.6 percent while percentage of women having established business activity is only 3.4 percent.

Women's Entrepreneurial Activity in India

Parameters	Value
Female total early stage entrepreneurial activity (TEA)	7.6 percent
Ratio of female/male TEA	0.6 percent
Percentage of necessity driven women entrepreneurs	33.1 percent
Percentage of opportunity driven women entrepreneurs	61.6 percent
Percentage of Indian women having entrepreneurial intentions	16.7 percent
Percentage of women established business activity	3.4 percent

The representation of women in the area of entrepreneurship is very limited as only 13.76 percentages of establishments are women owned.

- Majority (83.19 per cent) of the women owned establishments run without a hired worker.
- Majority (65.7 per cent) of the women owned establishments are non- agricultural establishments.
- The top five states in women entrepreneurship are Tamil Nadu (13.51 percent), Kerala (11.35 per cent), Andhra Pradesh (10.56 per cent), West Bengal (10.33 Percent) and Maharashtra (8.25 per cent).

• The top five economic activities undertaken by women entrepreneurs are agriculture (34.3 Percent), manufacturing (29.8 Per cent), trade (18.23 per cent), other Services (5.38 Percent) and accommodation & food services (2.77 per cent).

• In agricultural activities majority of establishments (92.20 per cent) pertain to livestock activities

In non agricultural activities majority (45.36 per cent) of the establishments are in manufacturing activities.

• Women owned establishments provided employment to 13.48 million persons.

• Majority (89 per cent) of the women owned establishments were of perennial nature, 9 percent seasonal and 2 percent casual.

• Majority (79 per cent) of the women owned establishments were self-financed while 14.65 percent were financed from donations or transfers from agencies. Only 3.37 percent availed funding from government sources, merely 1.08 per cent availed finance from financial institutions, 0.84 per cent availed loans from non-institutions/ money lenders and only 1 per cent availed finance from self help groups

Women entrepreneurship is instrumental for achieving economic and societal growth.

Despite constituting around half of the total population of India, the economic participation of women is very limited. Women entrepreneurs of India are now emerging in non traditional sectors.

Women entrepreneurs are a heterogeneous segment having diverse demographic, economic and educational background. It is imperative that the policies and schemes cater to the unique needs of every segment.

It is evident that there are numerous challenges faced by women in the course of their entrepreneurial career. There is a need of comprehensive action plan to counter these challenges.

Women entrepreneurship is concentrated in five states namely Tamil Nadu, Kerala, Andhra Pradesh, West Bengal and Maharashtra. The policy and interventions of these states needs to be explored so that the best practices can be emulated in other states.

Despite the fact that government has framed and implemented various supportive measures, women entrepreneurship in India remains alarmingly low. Majority of the

women owned establishments are concentrated in unregistered sector and hence are unable to reap the benefits of government support. Impact assessment of existing policies and schemes may reveal novel ways in which women entrepreneurship can be nurtured. Women entrepreneurship is a diverse and complex domain which requires extensive and intensive research endeavors for decoding its dynamics.

UNIT IV

Industrial Sickness in India: Meaning, Causes and Suggested Remedies

Meaning:

One of the adverse trends observable in the corporate private sector of India is the growing incidence of sickness. It is causing considerable concern to planners and policymakers. It is also putting a severe strain on the economic system, particularly on the banks.

There are various criteria of sickness. According to the criteria accepted by the Reserve Bank of India "a sick unit is one which has reported cash loss for the year of its operation and in the judgment of the financing bank is likely to incur cash loss for the current year as also in the following year."

A major symptom of sickness is a steady fall in debt-equity ratio and an imbalance in the financial position of the unit. Simply put, a sick unit is one which is unable to support itself through the operation of internal resources (that is, earnings plough-back). As a general rule, the sick units continue to operate below the break-even point (at which total revenue = total cost) and are, thus, forced to depend on external sources for funds of their long-term survival.

Industrial sickness creates various socio-economic problems. When an industrial unit falls sick those who depend on it have to face an uncertain future. They fear loss of jobs. Even if they do not lose jobs they do not get their wages and compensation in time and are, thus, forced to live in extreme hardship.

Of course, sickness is not a special problem of India. It is, undoubtedly, a global phenomenon. Even in industrially advanced countries there are numerous cases of bankruptcy or liquidation. These sick units are nursed back to health through mergers, amalgamations, takeovers, purchase of assets, or outright nationalization. When the-problem becomes really alarming or unmanageable, the unit is permitted to die its natural death.

Causes:

Industrial sickness has become a major problem of the India's corporate private sector. Of late, it has assumed serious proportions. A close look reveals that there are, at least, five major causes of industrial sickness, viz., promotional, managerial, technical, financial and political.

An industrial unit may become sick at its nascent stage or after working for quite some time. For instance, two major traditional industries of India, viz., cotton textiles and sugar, have fallen sick largely due to short-sighted financial and depreciation policies. Heavy capital cost escalation arising out of price inflation accentuates the problem. The historical method of cost depreciation is highly inadequate when assets are to be replaced at current cost during inflation.

Moreover, since the depreciation funds are often used to meet working capital needs, it does not become readily available for replacement of worn-out plant and equipment. The end result is that the industrial unit is constrained to operate with old and obsolete equipment, its profitability is eroded and, sooner or later, the unit is driven out of the market by the forces of competition.

External vs. Internal Causes:

The factors leading to sickness can be due to reasons of finance, technical issues, mismanagement, non-availability of raw materials, power or natural calamities or disasters such, as fire or earthquake or a combination of such factors.

The causes of industrial sickness may be divided into two broad categories:

(i) external and

(ii) internal.

External causes are those which are beyond the control of its management and seen to be relatively more important than internal causes.

The causes which have been identified so far include:

(a) Delay in land acquisition and building construction

(b) Delay in obtaining financial assistance from public financial institutions

(c) Delayed supply of machinery by the manufacturers

(d) Problems related to recruitment of technical and managerial staff

(e) Delay on the part of the Government in sanctioning licences, permits, etc.

(f) Shortages of basic inputs like power and coal. Other causes include

(g) Cost over-runs due to factors beyond the control of management

(h) Lack of demand for products or shift of demand to products of rival firms due to delays in project implementation

(i) Unsatisfactory performance by collaborators—financial and technical

(j) Large changes in the scale of operation and optimum product mix in the long run and, last but not the least

(k) Changes in the policy of the Government relating to movement of goods from one place to another within the country

The primary cause seems to be:

(i) "Lack of experience of the promoters in a specific line of activity".

The other causes are:

(ii) Differences among various persons associated with the promotion and management of the enterprise

(iii) Mechanical defects and breakdown

(iv) Inability to purchase raw materials at an economic price and at the right time

(v) Failure to make controls effective in time, in case of deficiencies in workings

(vi) Deteriorating labour-management relations and the consequent fall in capacity utilisation

(vii) Faulty financial planning and lack of balance in the financial (capital) structure.

It is often observed that many projects are started without proper feasibility study. Hardly any long-term view of the future is taken. Instead, a project is sought to be managed on the basis of myopic vision, inadequate analysis and improper approach. Often industrial projects are started on an ad hoc basis without gathering much information about the expertise and competence needed for the purpose.

Moreover, once the construction work is started on the basis of a project report, there is no periodic assessment (or review) of the economic viability of the project. Often major changes in the political and economic environment (such as change in the party in power or change in Government) make the basic assumptions underlying the project unrealistic or inappropriate. Yet the project is made to remain operational without considering the after-effects.

So, there are various reasons that make industries sick. The prime among this is market-related. Market obsolescence is one of the prime reasons for units turning sick. A striking example is that of the jute industry, where "the non-avail- ability of raw materials and constant power shortages have made many units sick. And bankers are not normally very responsive in helping a company that has gone sick.

Incidence:

In Dec. 1980 the total number of sick units was 24,550, involving outstanding bank credit of Rs. 1,809 crores. As at the end of March 2000, the total number of sick units stood at 307,399 involving an outstanding bank credit of about Rs. 23,656 crores. Of these 14,793 were potentially viable, 278,423 were non-viable and the viability of the remaining 14,183 has not been decided.

Three major industries affected by industrial sickness are jute, engineering goods and textiles. Some of the industries such as the real estate, light consumer goods, automobile, diamonds and many others are reeling under the impact of steep fall in demand, inadequate supply of finance, large proportion of non-performing assets and constraints of finance due to huge amounts of funds getting blocked in ageing receivables

Government Policy:

A number of measures have been taken to tackle the problem of industrial sickness. The importance of detection of sickness at the incipient stage has been emphasised by the RBI. The policy framework in respect of measures to deal with the problem of industrial sickness has been laid down in the guidelines issued on October 1981 (which were subsequently modified in February 1982) for guidance of administrative ministries of the Central Government, State Governments and financial institutions.

The salient features of these guidelines are the following:

(a) The administrative ministries in the Government will have specific responsibility for prevention and remedial action in relation to sickness in industrial sector within their respective charges. They will have a central role in monitoring sickness and coordinating action for revival and rehabilitation of sick units. In suitable cases, they will also establish standing committees for major industrial sectors where sickness is widespread;

(b) The financial institutions will strengthen the monitoring system so that it is possible to take timely corrective action to prevent incipient sickness. They will obtain periodical returns from the assisted units and from the Directors nominated by them on the Boards of such units. These will be analysed by the Industrial Development Bank of India and results of such analyses conveyed to the financial institutions concerned and the Government.

(c) The financial institutions and banks will initiate necessary corrective action for sick or incipient sick unit based on a diagnostic study. In case of growing sickness, the financial

institutions will also consider taking of management responsibility where they are confident of restoring a unit to health. The Ministry of Finance will have to issue suitable guidelines for management;

(d) Where the banks and financial institutions are unable to prevent sickness or ensure re-vival of a sick unit, they will deal with their outstanding dues to the unit in accordance with the normal banking procedures. However, before doing so, they will report the matter to the Government which will decide whether the unit should be nationalised or whether any other alternative- including workers' participation in management— can revive the undertaking.

(e) Where it is decided to nationalise the undertaking, its management may be taken over under the provisions of the Industries (Development and Regulation) Act, 1951, for a period of six months to enable the Government to take necessary steps for nationalisation.

(f) Finally the industrial undertakings presently being managed under the provisions of the Industries (Development and Regulation) Act, 1951, will also be dealt with in accordance with the above principles.

Concessions:

The Government has also provided certain concessions to assist revival of sick units without direct intervention. For example, the Government has amended the Income-tax Act in 1977 by addition of Section 72A by which tax benefit can be given to healthy units when they take over the sick units by amalgamation, with a view to reviving them.

The tax benefit is in the form of carry forward of the accumulated business losses and un-provided depreciation of the sick companies by the healthy companies after amalgamation.

A scheme for provisions of margin money to sick units in the small-scale sector at soft terms to enable them to obtain necessary funds from banks and financial institutions to implement their revival scheme has been introduced from January 1, 1982.

Moreover, financial assistance in the form of long-term equity up to Rs. 15 lakh to units with a project cost not exceeding Rs. 10 lakhs at a nominal service charge of 1% is available to potentially viable sick SSI from the National Equity Fund.

Establishment of BIFR:

The Central Government has set up a Board for Industrial and Financial Re-construction (BIFR) with effect from 12 January 1987 in pursuance of enactment of the Sick Industrial

Companies (Special Provision) Act, 1985. This is a major step for intervening at an early stage and detecting, preventing, as well as taking ameliorative, remedial and such other measures which to be taken with respect to sick and potentially viable companies.

The role of the Board for Industrial and Financial Reconstruction (BIFR) needs a re-look in the face of a steep rise in the number of industries turning sick. BIFR was constituted to facilitate the revival of industries deemed sick. When an industry turns sick, BIFR acts as an operating agency (generally the lead financial institution having the largest loan exposure among the creditors) to devise a revival strategy proposal.

Progress in the right disposal of sick company cases registered with BIFR has been slow on account of the conflicting interests between the companies and the creditors (banks and financial institutions, government bodies/agencies) and certain lacunae in the SIC A Act. The rehabilitation schemes met with 40-45% failure, as a result of which many of the cases had to be reopened.

The rate of registration/sickness increased substantially during 1997-98 due to (a) the recessionary trends prevalent in industry, (b) poor financial market conditions, and (c) the tough stance taken by banks/financial institutions (FIs) towards defaulters/potentially sick companies under their non-performing assets (NPA) accounts for rescheduling of repayments, etc.

The problem appears even more acute if we take note of potentially sick BIFR companies, as also the NPAs of FIs and banks. In fact, the NPAs of banks and others have continued to rise.

Upto 1997-98 the outstanding bank credit against sick companies has reached an abnormal' proportion of over Rs. 23,658 crores, in March' 2000. Over 15 lakh workers have been affected by companies turning sick.

IRBI (IIBI):

The Industrial Reconstruction Bank of India (IRBI) set up in 1985 has initiated various steps for checking the growth of industrial sickness and helping in industrial revival. From April 1997 the name of IRBI has been changed to Industrial Investment Bank of India (IIBI). By March 2000, cumulative financial assistance sanctioned and disbursed by it stood at Rs. 10.090 crores and Rs. 7,353 crores, respectively.

A significant measure taken during 1986 was the setting up of Small Industries Development Fund (SIDF) in the IDBI. This is meant to provide special financial assistance to the small-scale sector. The Fund would be used for providing refinancing assistance not only for development, expansion and modernisation, but also for the rehabilitation of the small-scale sick industries.

Modernization Fund:

The Government has set up two funds, namely the Textile Modernisation Fund and the Jute Modernisation Fund, for modernisation of the textiles and jute sector. Under these two funds, assistance is provided not only to the healthy units for modernisation at 11.5% rate of interest; but also' to sick but potentially viable units. Special loans are given to the weak units for meeting a part of the promoters' contribution.

Goswami Committee Report:

The Committee on Industrial Sickness and Corporate Restructuring under chairpersonship of Dr. Omkar Goswami submitted its report in July 1993.

The main recommendations of the Committee with respect to sick companies are:

(a) For early detection of sickness the definition of sickness should be changed to:-

(i) Default of 180 days or more on repayment to term lending institutions, and

(ii) irregularities in cash credits or working capital for 180 days or more.

(b) Amendment of the Urban Land (Ceiling & Regulation) Act, 1976 to improve generation of internal resources of sick companies.

(c) Empower the BIFR for speedier restructuring, winding-up and sale of assets of companies; and

(d) A sick company's own reference of BIFR should be voluntary, not mandatory.

SICA Amendment Act, 1994:

The modifications brought in the Sick Industrial Companies (Special Provisions) Act, 1985 by the 1994 Amendment Act pertain to the changes in the definition of SICA, expansion of the term operating agency, clarification that an enquiry as to sickness shall be deemed to have commenced on receipt of a reference by the BIFR complete in all respects, scope for reverse merger, **"deemed consent"** after the lapse of 120 days, **"single window concept"** for release of funds by banks/financial institutions to the sick company, monitoring implementation of sanctioned revival schemes by BIFR, holding on operations

by financial institutions/banks/State Governments, empowering the Central Government, State Government, banks, institutions, etc., to report cases of potential sickness, etc.

In the definition of sickness the period for the registration of an industrial company as sick has been reduced from seven to five years. Furthermore, the condition of incurring cash losses during the preceding two years has been waived. This means that an industrial company would be considered a sick industrial company once its net worth is completely eroded and has been registered for not less than five years.

Suggested Remedies:

Some of the effective measures which may be taken for revival of sick units are technical help, professional counselling and improved management. Also, the role of professionals and experienced management becomes more important in times of sickness.

In addition to technical and professional consultants, no sick industry will ever be able to recuperate without sufficient, timely and soft finance. Bankers are the key to the problem. The role of the bankers needs to be redefined and a new direction needs to be given to support aid and lift sick industrial units from the situations that befall them. It is also the level of service and support in terms of financial advice, assistance in related matters of insurance, release of hypothecated assets and timely finance.

The Sick Industrial Companies (Special Provisions) Bill, 1997, passed by Lok Sabha, introduced encouraging changes. It suggested that a time-bound procedure was to be adopted within which the scheme has to be sanctioned and BIFR would play the role of a mediator and not a court.

Technical obsolescence and financial mismanagement are also important factors that lead to industrial sickness. As per the new provisions, an opportunity will be given to get an unanimous consent to a scheme from all concerned, failing which secured creditors will attempt to form a scheme and, if all this fails, the undertaking would be sold off. Only if it is not possible to do that, the BIFR may order winding up of the company.

CREATIVE THINKING. MEANING AND CHARACTERISTICS

The concept of creativity occupies a very important place in educational psychology. The advancement of any country depends on the extend of the development of creativity among its citizens. Therefore in modern times the progressive nations strive to develop creativity in their new generations.

Creative men and women are born in diverse circumstances. We can see in the history of the world that, there had been several philosophers, poets, writers and painters who were drop outs of their school classes, predestined as backward students, created great works in their later life.

Meaning of Creative Thinking

There are various definitions to explain the meaning of creativity. Morgan has pointed out 25 definitions of creativity scattered in literature. One thing was common in those definitions and that was the uniqueness of creativity. In 1911, Ink Blots of Binet were used for testing creativity. Since then different experiments had been conducted in this field which has thrown light upon the nature of creativity. Following are some definitions of creative thinking to understand its meaning:-

"Creativity sometimes refers to creative potential, sometimes to creative production and sometimes to creative productivity." Guilford

"Creative thinking consists of forming new combinations of associative elements." Mednik

"Creative thinking involves new forms of thinking away from the traditional forms. Thus creativity includes curiosity, imagination, research, novelty and inventions etc." Simson

The above definitions of creative thinking point out that it means original thinking, new types of associations, divergent thinking and behaviour, & new solutions of old problems. The creative person's thinking is dynamic, flexible, originality and novel.

Characteristics of Creative Thinking

• In order to be creative, a person should be very well aware of the problems in his circumstances. A creative person is aware of the problems present in his circumstances and makes every effort to find out new solutions to these problems.

• Dynamic Thinking- A creative person not only thinks creatively, but he will be having dynamic thinking. He has more capacity of adjustment, but this tuning is sought through new combinations.

• The most important characteristic of creativity is divergent thinking. Divergent thinking involves continuity, flexibility, and originality. These qualities can be observed in the works of great scientists, philosophers and literary thinkers.

• Besides being divergent, creativity leads to useful results. It is certain that new idea gives immense pleasure to the thinker as creativity impresses every one. According to Bruner, a creative product must be impressive. It is hence that the creative person is absolutely involved in his work.

• An important trait of creative thinking is flexibility of thinking and behaviour. The creative person is always prepared to adopt new attitude, ideas or behaviour.

• Originality is an essential feature of creative thinking. A creative person is not confined to ideas or experiences. He uses new ideas, new attitudes and new methods.

• In order to achieve the above mentioned traits of creative thinking, the creative person should have sufficient curiosity. It is due to curiosity that a person is anxious to know new things in any field. It is due to curiosity again that he seeks to utilize new methods.

• An ordinary person is generally confined to his immediate environment and circumstances and hence cannot rise above it. A creative person on the other hand, has the ability to go beyond the immediate circumstances and show novelty in thinking and behavior.

• In order to find out new solutions, it is necessary that the problem should be looked from a new point of view. The object of thinking should be novel and valuable. Thinking should b divergent, highly motivated and constant.

Researching and practicing in the interested areas and materials will generate new insights, open up new perspectives in the mind that will float the highly valued human ability-Creativity.

INNOVATION

TYPES & PHASES

The process of translating an idea or invention into a good or service that creates value or for which customers will pay. To be called an innovation, an idea must be replicable at an economical cost and must satisfy a specific need. Innovation involves deliberate application of information, imagination and initiative in deriving greater or different values from resources, and includes all processes by which new ideas are generated and converted into useful products. In business, innovation often results when ideas are applied by the company in order to further satisfy the needs and expectations of the customers.

In a social context, innovation helps create new methods for alliance creation, joint venturing, flexible work hours, and creation of buyers' purchasing power. Innovations are divided into two broad categories: Evolutionary innovations (continuous or dynamic evolutionary innovation) that are brought about by many incremental advances in technology or processes and revolutionary innovations (also called discontinuous innovations) which are often disruptive and new. Innovation is synonymous with risk-taking and organizations that create revolutionary products or technologies take on the greatest risk because they create new markets.

Imitators take less risk because they will start with an innovator's product and take a more effective approach. Examples are IBM with its PC against Apple Computer, Compaq with its cheaper PC's against IBM, and Dell with its still-cheaper clones against Compaq.

The best new products and services frequently offer a number of innovative characteristics/features/attributes, and customer "touch points" in combination.

Apple products are innovative **aesthetically** in terms of design, material, and often color; They're innovative in terms of **product features** such as voice recognition, tactile responsiveness, and synchronicity between devices;

They're innovative in terms of **customer touch points** such as no-wait checkout through sales associate enabled iPhones, the Genius Bar to help solve customer problems on the spot, and the plentiful in-store devices that are inviting, and easy and fun to try and learn more about.

Bases for new products and services innovation can be ground-breaking and revolutionary, resulting from major new technologies such as 3D printing or nanotechnology, or small, simple, and seemingly obvious, like turning a ketchup bottle upside down, adding a 4th ball to a tennis ball can, or offering bright colors to items previously only white, black, or monochromatic. Innovations can involve simply taking something that has long been utilized or enjoyed in one market, such as a food, or face cream, and introducing it to a market that has never seen it.

Argan oil is a prime example: used for centuries by the Berbers in North Africa, over the last 5-10 years it has become a popular ingredient in many U.S. hair and cosmetic products, to protect and nourish hair and skin.

Consumers have become increasingly habituated to look for and want what's new, best, fastest, more convenient, or more fashionable, and to tire of products much more quickly. This mindset applies to virtually every category: even previously slow moving ones such as dishes, toothpaste, or paper towels. For firms to sit still and not successfully innovate is often to wither away, since competitors and start-ups have leapfrogged industry incumbents. Complacency is not an option. In this increasingly educated and talented world, with lower labor and production costs abroad, successful start-ups can pop up anywhere.

Going forward, this blog will focus on how marketers, in particular, can innovate and work better with others in their firms to make great innovations happen, including how marketing organizations can be optimally structured to create cultures that encourage innovation.

TYPES OF INNOVATIONS

Incremental Innovation

Incremental Innovation is the most common form of innovation. It utilizes your existing technology and increases value to the customer (features, design changes, etc.) within your existing market. Almost all companies engage in incremental innovation in one form or another.

Examples include adding new features to existing products or services or even removing features (value through simplification). Even small updates to user experience can add value,

Disruptive Innovation

Disruptive innovation, also known as stealth innovation, involves applying new technology or processes to your company's current market. It is stealthy in nature since newer tech will often be inferior to existing market technology. This newer technology is often more expensive, has fewer features, is harder to use, and is not as aesthetically pleasing. It is only after a few iterations that the newer tech surpasses the old and disrupts all existing companies. By then, it might be too late for the established companies to quickly compete with the newer technology.

There are quite a few examples of disruptive innovation, one of the more prominent being Apple's iPhone disruption of the mobile phone market. Prior to the iPhone, most popular

phones relied on buttons, keypads or scroll wheels for user input. The iPhone was the result of a technological movement that was years in making, mostly iterated by Palm Treo phones and personal digital assistants (PDAs). Frequently you will find that it is not the first mover who ends up disrupting the existing market. In order to disrupt the mobile phone market, Apple had to cobble together an amazing touch screen that had a simple to use interface, and provide users access to a large assortment of built-in and third-party mobile applications.

Architectural Innovation

Architectural innovation is simply taking the lessons, skills and overall technology and applying them within a different market. This innovation is amazing at increasing new customers as long as the new market is receptive. Most of the time, the risk involved in architectural innovation is low due to the reliance and reintroduction of proven technology. Though most of the time it requires tweaking to match the requirements of the new market.

In 1966, NASA's Ames Research Center attempted to improve the safety of aircraft cushions. They succeeded by creating a new type of foam, which reacts to the pressure applied to it, yet magically forms back to its original shape. Originally it was commercially marketed as medical equipment table pads and sports equipment, before having larger success as use in mattresses. This "slow spring back foam" technology falls under architectural innovation. It is commonly known as memory foam.

Radical innovation

Radical innovation is what we think of mostly when considering innovation. It gives birth to new industries (or swallows existing ones) and involves creating revolutionary technology. The airplane, for example, was not the first mode of transportation, but it is revolutionary as it allowed commercialized air travel to develop and prosper.

The four different types of innovation mentioned here – Incremental, Disruptive, Architectural and Radical – help illustrate the various ways that companies can innovate. There are more ways to innovate than these four. The important thing is to find the type(s) that suit your company and turn those into success.

The 4 phases of innovation

The phases of an **innovation**, I e an **innovation process**, can be divided into four main steps:

Idea: collection of innovation potentials, derivation of ideas, evaluation and release of ideas.

Concept: Extensive analysis and derivation of concepts for the solution, implementation and marketing.

Solution: Development and testing of the solutions to the finished product.

Market: Arouse and fulfill a customer's needs by implementing in procurement, production and logistics as well as marketing and sales.

Each phase has its own characteristics. If the front phases are more creative and less structured, the phases of implementation and marketing are very process-oriented and focused.

Phase 1: Ideas

An innovation process always starts with the search for and finding innovative potentials and the derivation of ideas, which are subsequently evaluated.

An innovation potential is a newly discovered opportunity for innovation. This can be:

- An unfulfilled customer requirement
- A problem with the customer
- A possible new market
- A new technical solution.

There are countless possibilities for tracking down innovation potentials. There are essentially two different approaches:

Targeted search: The search for potentials is based on the **innovation strategy** and the **derived search fields**. Different methods are used, eg creativity workshops, **LEAD user workshops**, **ideas contests**.

Random Finding: One encounters randomly discovering impulses for potentials. For example, one finds a new technology in searches. However, employees can also generate impetus via the company's suggestion or on the basis of customer feedback.

An idea emerges from the potential for innovation, a thought-like construct, such as the new solution in the sense of a new product or a new service. In practice, it can merge into a

one-pager with a description and sketch. In the case of a first description of the ideas, the reason why the idea is relevant to the company, the potential and the usefulness of the idea is important.

The conclusion of the first phase makes the idea assessment. On the basis of defined criteria, the potential benefits and the feasibility of the company are evaluated. Based on this, the idea is given a priority and the release for the next phase is decided where the objectives and expectations are also concretized.

Phase 2: Concept

From Phase 1 comes a concrete and released idea with goals and expectations. This is followed by an intensive analysis phase in order to gather as much information as possible about the idea and its further processing:

- Market and customer requirements
- Market potential, e.g. Market size, market attractiveness
- Chances, e.g. Differentiation possibilities for the competition
- Risks and feasibility, e.g. Technical feasibility, market entry barriers
- Framework conditions, e.g. Laws, standards, patents

The most intensive and important analysis is that of the customer requirements, for example:

- What are the needs of customers?
- Are there any unfulfilled or unconscious customer needs?
- Which customer problems are there and should be resolved?
- What is the importance of needs?

Here, a systematic approach with professional methods such as customer interviews, focus groups, lead user workshops or customer observations is recommended in order to gain the greatest possible insight. Especially **LEAD Users** are a very valuable source, because they have many experiences and many own ideas and solutions as advanced users. On the basis of the analyzes, first concepts are developed with regard to the

Solution

Implementation

Marketing.

The solution first includes the requirements for the new product, the specification. Furthermore, there are first solution concepts in the form of descriptions, sketches or models.

For a successful and feasible implementation, first thoughts have to be gathered for an implementation concept. It covers procurement, production and logistics. Marketing is also very important. The best solution is not successful if it is not marketed well. This includes the product strategy, which defines the positioning, the USP, target markets, possible sales channels, the pricing strategy, etc. This strategy is the basis for marketing and distribution throughout the product life cycle.

The **business model Canvas** by Alexander Osterwalder and Yves Pigneur is the perfect tool for conceptualization.

In order to release the idea or concept for the next phase, a concept evaluation is necessary. It analyzes the requirements for solution, implementation and marketing thoroughly. Particular attention is paid to the solution concept, which is best evaluated with future customers and users.

The optimal approach is iterative, where initial raw concepts are evaluated and continuously developed in continuous feedback loops until a coherent, first-class concept is established.

Depending on the scope of the concept phase, an innovation project can already be started here in order to work with the tools of the project management.

Phase 3: Solution

The aim of Phase 3 is to develop a ready-to-use solution that can be brought to the market. Solutions are being developed, prototypes built and tests carried out. In addition to concept and lab tests, the tests also include market tests under real conditions in order to gain comprehensive feedback.

Once the solution has reached maturity, it will be released for implementation and marketing. At the same time, the concepts for implementation and marketing are further developed and adapted.

Outputs of this phase are usually technical specifications, CADs and know-how for application and production.

Phase 4: Market

The last phase is about bringing the product to the potential customers. On the one hand, this requires the physical availability of the product. These include procurement, production and logistics based on defined concepts.

On the other hand, the customer is aroused and then fulfilled. All marketing and sales channels are activated. As a basis, internal sales must be convinced and trained in order to bring the products to the customers in the main step. All these activities can be summarized as innovation marketing.

At the end of the innovation phases, the new product is transferred to product lifecycle management in the responsibility of product management. On the basis of the continuous evaluation and analysis of the product on the market by, for example, customer feedback or quantitative market analyzes, measures are taken to increase sales, margins and customer satisfaction. Among other things, the famous **4P tools** of marketing are used.

UNIT V

CASE STUDY

BIOCON INDIA GROUP

"EARN AS YOU LEARN" For 25 years this unofficial philosophy had served Biocon well. Starting out in the enzyme business in 1978, the Bangalore-based firm had gradually expanded into the pharmaceutical industry. Expertise in manufacturing enzymes led to mass production of generic drugs, which in turn gave Biocon the experience to establish Syngene, a subsidiary contract research organization (CRO) serving the global pharmaceutical market. At each stage Biocon had built on both its recently developed capabilities and the political, biological, intellectual, and financial benefits of the Indian environment to move into new areas of opportunity.

By early 2003, Biocon had parlayed earning and learning into a firm that boasted 800 employees and annual revenues of US$75 million. Yet the time had come to consider whether this growth model was reaching its limits. In the eyes of Biocon India Group's Managing Director, Kiran Mazumdar-Shaw, Biocon's newest subsidiary, Clinigene, seemed an ideal way to capitalize on the company's technical strengths by offering services in clinical trials. There was concern, however, that Clinigene could also be an enormous distraction, consuming precious resources in an area in which Biocon had little direct experience.

Moreover, if Clinigene did prove profitable, its very success could be a Pyrrhic victory: the subsidiary could rapidly outgrow its parent and damage the company's hitherto collaborative culture. The growth could even sidetrack Mazumdar-Shaw and Biocon's directors into pursuing a possibly futile dream of creating one of the only fully integrated drug discovery and development companies in India. Yet if Biocon chose not to pursue the promise of Clinigene, it might be trapped forever in the brutally competitive generic pharmaceuticals market, unable to tap its potential as an innovator. Springboard, pitfall, or detour: Mazumdar-Shaw knew that the shareholders expected her to predict Clinigene's and Biocon's future correctly, and soon.

The Indian Pharmaceutical Industry The Indian pharmaceutical industry had been shaped to a great extent by economic policies since independence in 1947. Initially, pharmaceutical multinational corporations (MNCs) from Europe and the United States dominated the local market. In the 1960s, India's government established local bulk drug manufacturers

Hindustan Antibiotics Ltd. and India Drug and Pharmaceuticals Ltd. to compete with the MNCs' overseas bulk-drug operations for supplying local formulation plants. In 1970, the government passed two regulations that affected the pharmaceuticals industry: the India Patent Act (IPA) and the Drug Price Control Order (DPCO).

The India Patent Act prohibited "product patents for any invention intended for use or capable of being used as a food, medicine, or drug or relating to substances prepared or produced by chemical processes."1 As a result, any drug on the market could be reproduced without retribution. The Drug Price Control Order gave the Indian government the authority to set prices for drugs sold on the local market.

Starting in its earliest days, the industry experienced phenomenal growth. A combined bulk drug and formulations output of 168 Rs. crore2 in 1965 grew to 19,737 Rs. crore 35 years later, an annual growth rate of 15%. Roughly two-thirds of the output stayed in the domestic market, which by the year 2001 was also growing at 15% annually. The remaining one-third – 6,631 Rs. crore – went to the export market, which had a 21% growth rate.

By the beginning of the 21st century, over 20,000 pharmaceutical companies were operating in India. Fueling these companies and their export market was the global pharmaceutical industry's trend toward outsourced research, development, and manufacturing. Facing slimming pipelines and escalating costs – an average of US$800 million to bring a new drug to market – major pharmaceutical firms increasingly saw outsourcing as the best, perhaps only, way to boost speed, reduce problems faced during regulatory processes worldwide, and cut costs by 30% to 35%.

Revenues for clinical research companies worldwide in 2000 were estimated at $7 billion and expected to grow at 30% per year. When choosing to outsource, global pharmaceutical firms tended to focus on three areas of the drug discovery and development value chain (see Exhibit 1): • Research and development (R&D). Drug discovery usually required considerable quantities of particular molecules with which to experiment. A contract research organization (CRO) could make target and even custom molecules to order. • Clinical trials.

A drug typically went through four phases of clinical trials to determine whether it worked consistently, for a large population, without toxicity or major side effects.

A CRO might offer services in some or all phases, including finding the patients, working with hospitals and doctors, and managing the data. • Manufacturing. Once the drug was tested and approved, it could be produced in bulk according to the set formula and process. Manufacturing, though not always simple, tended to be the least value-added of the three outsourcing areas and thus the most price-competitive. By the year 2000, leading pharmaceutical firms were outsourcing roughly 25% of all their work in these areas. 6 Increasingly the country of choice for outsourcing of pharmaceutical products, whether finished or intermediate, was India.

India had a large pool of English-speaking scientists and professionals who were well-educated and well-trained. They were also cheap: a Ph.D.'s salary in India averaged approximately $15,000, while the equivalent in the United States was closer to $100,000.7 India's population was genetically diverse, which provided researchers with easily accessible ethnic genetic structures and a well-balanced group from which to recruit for clinical studies and to whom companies could eventually sell their products.

Clinical trials services, in particular, were emerging as prime targets for outsourcing to India. Clinical trials represented the most expensive part of the drug development chain: nearly 60% of total development costs, of which nearly 70% went to patient recruitment and medical personnel.8 Meanwhile the Indian government had recognized the tremendous growth potential of the medical biotech industry, and so had set up both internal and external supports to encourage the industry's growth, especially in the areas of R&D and biotech facilities.9 In 1986, the federal government created the Department of Biotechnology within the Ministry of Science and Technology.

Some Indian states, such as Karnataka, had taken the initiative to build international-standard biotech parks. In addition to building facilities for research and development, business incubation, and biotech companies, Karnataka also eased tax, duty, and lease obligations for residents of the biotech parks.10 Biotech was also beginning to attract venture capital funding, although it remained the minority source: 10%, or about 300 Rs. crore, of outside funding was believed to come from VCs, compared to 40% from banks, government sources, and internal resources.

Most Indian biotech and pharmaceutical firms counted on organic growth or acquisition, not outside funding, to fuel any expansion.

The Biocon India Group Biocon India was established in 1978 by Kiran Mazumdar-Shaw, the Managing Director, as a joint venture with Biocon Ireland to bulk manufacture enzymes. Mazumdar-Shaw had begun her studies planning to become a master brewer like her father, an unusual occupation for a Brahmin family from the alcohol-prohibiting state of Gujarat. But after graduate school, when she found that the industry wasn't ready for the first woman master brewer, Mazumdar-Shaw turned to business opportunities using fermentation processes to produce enzymes for various purposes. From a shed in an undeveloped part of Bangalore, she began producing mass papain and isinglass, two enzymes that used raw materials which were already abundant in India and necessary for the production of beer. In 1989,

Biocon Ireland was acquired by Unilever. As part of Unilever, Biocon began producing enzymes for Unilever's food business. In 1998, Biocon India bought out Unilever's share in the company and became an independent, privately owned entity.

Biocon Central to Biocon India's success in its early days was its ability to recreate a fermentation process that was dominated by Japanese companies in the early 1980s. Biocon's Chief Scientist, Shri Suryanarayan, visited Japanese factories to understand their methods for the solid state process of fermentation, and developed a pilot plant in 1989. By 1995, a second plant was required, three times the size of the original plant. During this time, Shri and his R&D team built a unique and subsequently patented fermentation reactor, called the PlaFractorTM, which greatly simplified the fermentation process and created greater control, thereby reducing waste and inefficiency.

It soon became clear that the capabilities and resources developed to produce enzymes could be easily applied to the lucrative healthcare market. In 1997 Biocon India entered the $12 billion market for generic statins, a group of drugs targeted at lowering cholesterol. It launched Lovastatin in Canada, Mexico, Eastern Europe, and Southeast Asia. After Merck's patent on the drug expired in 2001, Biocon took the opportunity to sell in all countries. With Lovastatin and other statins – Simvastatin, Provastatin, Atorvastatin, etc. – Biocon became the first company to produce healthcare products through solid state fermentation.11 Syngene Meanwhile, by the early 1990s,

Biocon's scientists were developing significant abilities not just as brewers or manufacturers but as chemical and biological researchers. In 1994, Mazumdar-Shaw and

her team therefore decided to convert that expertise into a new business, Syngene. A separate company within the Biocon India Group, Syngene was the first Indian CRO to serve pharmaceutical and biotech companies – primarily international – in the areas of synthetic chemistry, molecular biology, and informatics. Syngene provided its clients with bulk volumes of target molecules, reagents, and custom molecules for early-stage drug discovery and development. In the process,

Syngene was building the skills and infrastructure to discover original molecules. Here again was the "earn as you learn" philosophy, a philosophy that helped foster a strongly collaborative culture throughout Biocon India.

The Biocon India Culture and People Biocon India prided itself that the cornerstones of its culture were openness, trust, and collaboration. Visitors often remarked that everyone – senior leaders, key scientists, lab employees – constantly walked in and out of the buildings and corridors, discussing ideas and exchanging views with colleagues from Biocon and its subsidiaries. Biocon valued its people's accessibility, and as Tara Jayaram, Head of Quality Assurance, noted, "Kiran [Mazumdar-Shaw] encouraged us to collaborate from the beginning, and we are passing on the same corporate values to our people as we grow." Chief Scientist Shri Suryanarayan took pride in being available by cell phone rather than hunkering down in his office:

"This is how we at Biocon India find our opportunities." Employees were encouraged to avoid hierarchies in the interest of doing the best job they could. "At [Biocon India], we work without hierarchies," explained Jayaram. "I don't need to go through layers to reach the person that I need; that is not the culture we have here. It is perfectly acceptable, and encouraged in fact, that people go directly to the person they need to reach without waiting for permission, approval, whatever.

This is how it was when I joined, 15 years ago when we were only 43 employees, and this is how it continues to be today." A key element of the Biocon India open culture was trust among colleagues. "Take away people's insecurities," pointed out Mazumdar-Shaw, and creativity and passion would flow. Shri Suryanarayan estimated that it took an average of two years to strip away a new hire's wariness and see him fully embrace the collegial culture at Biocon.

To ease and streamline this acceptance, Biocon had invested in both numerous creature comforts – special transportation, free lunch and snacks, on-site health checkups, etc. – and a strongly meritocratic hiring and performance management system. Performance rewards were based not merely on an individual's achievement but on the performance of her team, so as to foster excellence and reinforce collaboration. Thanks to its cultural and financial successes, Biocon India had become a highly desirable place to work, allowing it to hire the best minds in the sciences.

According to Nirupa Bareja, Head of Human Resources, "We want people with scientific backgrounds because it makes it much easier for people to talk to each other. They are familiar with the jargon, accustomed to scientific concepts, and this facilitates dialogue and fitting in." Importantly, Biocon India Group's people were also businessoriented, typically coming from industry backgrounds (Novo Nordisk, Astra Zeneca, etc).

Yet senior managers were keenly aware that background and industry experience alone were not enough. As Jayaram remarked, "I rejected a candidate that was exceptional in his scientific background, because he did not have the collaborative attitude that is so essential to Biocon."

Clinigene

Emboldened by the strength of Biocon India's culture and its two subsidiaries, Mazumdar-Shaw and her senior team developed a vision: to become a fully integrated drug discovery and development company.

The Biocon India Group already possessed or was developing the capabilities for conducting research and development, manufacturing pharmaceuticals, and marketing its products. Besides animal testing, Biocon's missing link in the traditional pharmaceutical value chain was the ability to run clinical trials (see Exhibit 2).12 Thus in the year 2000 Biocon India launched a new subsidiary: Clinigene. Clinigene sought ultimately to offer a broad range of clinical trial services, recognizing that drug development could span two different areas that consequently required different types of clinical studies. Generally, generic drugs required bio-equivalence and bio-availability (BE/BA) clinical studies to prove that the generic drug worked as well as the off-patent original drug. But for new drugs, much more elaborate clinical trials had to be conducted. In the few years since its

launch, Clinigene had focused not on organizing trials but on clinical lab services, BE/BA studies, and partnership coordination with hospitals.

As Chief Operating Officer Dr. A. S. Arvind noted, "By building up capabilities in conducting BE/BA studies and clinical trials, Clinigene fills a key missing gap in the drug discovery and development value chain for Biocon." According to Dr. Nadig, Vice President of Medical Services, the services contributed to "Clinigene's ability to conduct high quality clinical research from start to finish." Yet launching Clinigene raised multiple concerns, largely because it was not clear how soon Biocon India Group would need its capabilities. Biocon India was still several years away from developing its own drug molecules. Rather than put Clinigene on hold until in-house demand kicked in, Mazumdar-Shaw expected Clinigene to sustain itself with external clients in the CRO business. More than two years after Clinigene's creation, doubts remained about the risks it posed, risks particularly in market positioning, culture, publicity, and ethics.

Market Opportunity Clinical research in India was beginning to take off, and was forecast to explode during the next decade. Contract research organizations (CROs) were emerging as the key players in this market. Lotus Labs, for instance, was growing at a rate of 100% per year, and one study predicted that Indian CROs would grow from 0.7% of the global market in 2002 to 20% in 2010.13 Within India, CROs based in Bangalore accounted for 2% to 3% of the total CRO activity in India, which was estimated at Rs. 250 crores in 2000, and were expected to continue to grow over the next few years.

This high growth potential could represent significant opportunity for Clinigene to reap revenues as a CRO player. On the other hand, Clinigene would have to position itself carefully. Indian CROs were focused primarily on serving the need for BE/BA studies in the market, and although a few were beginning to offer services in clinical trials, some pharmaceutical MNCs were wary of outsourcing such critical and sensitive tasks to a largely unproven Indian industry.

Meanwhile foreign CROs, such as Quintiles, and the in-house data management centers of big pharmaceutical companies, such as GlaxoSmithKline and Pfizer, were focusing their efforts on serving higher-value needs of the market, particularly data management and Phase III clinical trials (see Exhibit 3). Clinigene's current capabilities positioned it in the low- to medium-value segment of the value chain. Moving up the value chain might be more

profitable in the long run but would entail significant costs, both financial and cultural. Organizational Culture Mazumdar-Shaw and her team also recognized that Biocon India Group could end up a victim of Clinigene's success.

Were it to succeed in capturing a significant slice of a growing market, Clinigene could conceivably grow to a size that overshadowed Biocon and Syngene. Such aggressive growth meant the diversion of time and resources. It also meant a large influx of new employees and little time to inculcate the Biocon culture – particularly the two years cited by Shri Suryanarayan. New organizational designs and procedures might need to be introduced and enforced, in a company that prided itself on loose structures and casual hierarchies. Moreover, the nature of clinical trials required that much of the work be done in partner hospitals. Physically dispersed among trial sites, rarely able to wander the corridors or enjoy Biocon's facilities, the Clinigene employees could easily end up disaffected, or at least loyal only to Clinigene rather than its parent Group.

Publicity and Ethics Clinical trials dealt with humans, and thus carried significant risk to the CRO sponsoring the clinical trial. Although rigorous and stringent conditions were imposed by the industry and government bodies, the risk still fell upon the company running the experiments. Furthermore, this risk could have multiple dimensions: financial losses from failed clinical trials and compensation to victims, ethical challenges for employees eager to achieve results and unsure where subjectively measured "good ethics" lay, and damage to reputation and even organizational survival if questions were publicly raised about the company's impact on humans and society. In the media, Biocon India Group had enjoyed coverage ranging from quiet approval to fawning praise.

But if a Biocon subsidiary were to run clinical trials in India, a developing nation with a significant population living in poverty, it could receive negative and destructive attention for the first time. The issue of human participation in clinical trials, never a simple topic, grew far more complex when the use of illiterate and arguably ill-paid subjects raised questions of patient consent and abuse. In the United States, for example, any actual or perceived infringement of clinical trials ethics – not providing informed consent, preventing control-group subjects from seeking medical treatment, etc. – frequently provoked references to the Tuskegee Syphilis Study (1932-1972), "arguably the most infamous biomedical research study in U.S. history."

As some Clinigene staff had recently pointed out, clinical trials could easily become politicized, particularly when a Western MNC used an Indian company like Clinigene to test drugs on Indians for largely Western use. In its desire to grow into a model firm – a rare Indian example of a fully integrated drug discovery and development company – Biocon India Group might find itself accused of deliberately inviting neocolonial imperialism, foreign exploitation, and subjugation to the West. Seeing the Future Mazumdar-Shaw was excited by Clinigene's bright prospects. Yet she also recognized the importance of caution. True, Clinigene was making money, attracting clients, and filling gaps in the Biocon India Group value chain. But it also significantly increased the company's risks, risks not just of embarrassment or failure but of dangerously swift success. If Biocon India Group were to grow, then it needed to expand – to Mazumdar-Shaw this seemed certain.

She could push Clinigene to get all the business it could, even though it could end up dwarfing the rest of the company and sapping the core culture. Alternatively, she could ensure that in the short term Clinigene only took business for services that were relatively safe, albeit lower-value, and waited to run clinical trials until Syngene was ready to test its own original molecules. Perhaps Clinigene was sidetracking the firm, forcing its senior team to run a start-up all over again;

if so, the simplest (though more immediately expensive) approach would be acquisition: buy a budding clinical services CRO, preferably one that would add expertise and client relationships but could be kept at arm's length from the Biocon culture. "Earn as you learn" had worked in the past. Whether the one would soon sabotage the other: that was part of the future Kiran Mazumdar-Shaw now had to predict.

Study Questions

1. What are the advantages and disadvantages of starting and operating a pharmaceutical firm in India?

2. Is the Indian CRO market attractive?

3. What is the best way for Biocon India Group to expand?

Case Write-up Question

What is the best way for Biocon India Group to expand, and what factors should it consider?