

UNIT-II

ENTREPRENEURSHIP:

The capacity and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit. The most obvious example of entrepreneurship is the starting of new businesses. In economics, entrepreneurship combined with land, labor, natural resources and capital can produce profit. Entrepreneurial spirit is characterized by innovation and risk-taking, and is an essential part of a nation's ability to succeed in an ever changing and increasingly competitive global marketplace

Characteristics of Entrepreneurship:

1. Economic and dynamic activity:

Entrepreneurship is an economic activity because it involves the creation and operation of an enterprise with a view to creating value or wealth by ensuring optimum utilisation of scarce resources. Since this value creation activity is performed continuously in the midst of uncertain business environment, therefore, entrepreneurship is regarded as a dynamic force.

2. Related to innovation:

Entrepreneurship involves a continuous search for new ideas. Entrepreneurship compels an individual to continuously evaluate the existing modes of business operations so that more efficient and effective systems can be evolved and adopted. In other words, entrepreneurship is a continuous effort for synergy (optimization of performance) in organizations.

3. Profit potential:

“Profit potential is the likely level of return or compensation to the entrepreneur for taking on the risk of developing an idea into an actual business venture.” Without profit potential, the efforts of entrepreneurs would remain only an abstract and a theoretical leisure activity.

4. Risk bearing:

The essence of entrepreneurship is the ‘willingness to assume risk’ arising out of the creation and implementation of new ideas. New ideas are always tentative and their results may not be instantaneous and positive. An entrepreneur has to have patience to see his efforts bear fruit. In the intervening period (time gap between the conception and implementation of an idea and its results), an entrepreneur has to assume risk. If an entrepreneur does not have the willingness to assume risk, entrepreneurship would never succeed.

Entrepreneurial Process:

Entrepreneurship is a process, a journey, not the destination; a means, not an end. All the successful entrepreneurs like Bill Gates (Microsoft), Warren Buffet (Hathaway), Gordon Moore (Intel) Steve Jobs (Apple Computers), Jack Welch (GE) GD Birla, Jamshedji Tata and others all went through this process.

To establish and run an enterprise it is divided into three parts – the entrepreneurial job, the promotion, and the operation. Entrepreneurial job is restricted to two steps, i.e., generation of an idea and preparation of feasibility report. In this article, we shall restrict ourselves to only these two aspects of entrepreneurial process.

The Entrepreneurial Process

1. Idea Generation:

To generate an idea, the entrepreneurial process has to pass through three stages:

a. Germination:

This is like seeding process, not like planting seed. It is more like the natural seeding. Most creative ideas can be linked to an individual's interest or curiosity about a specific problem or area of study.

b. Preparation:

Once the seed of interest curiosity has taken the shape of a focused idea, creative people start a search for answers to the problems. Inventors will go on for setting up laboratories; designers will think of engineering new product ideas and marketers will study consumer buying habits.

c. Incubation:

This is a stage where the entrepreneurial process enters the subconscious intellectualization. The sub-conscious mind joins the unrelated ideas so as to find a resolution.

2. Feasibility study:

Feasibility study is done to see if the idea can be commercially viable.

It passes through two steps:

a. Illumination:

After the generation of idea, this is the stage when the idea is thought of as a realistic creation. The stage of idea blossoming is critical because ideas by themselves have no meaning.

b. Verification:

This is the last thing to verify the idea as realistic and useful for application. Verification is concerned about practicality to implement an idea and explore its usefulness to the society and the entrepreneur.

Importance of Entrepreneurship:

Benefits of Entrepreneurship to an Organisation:

1. Development of managerial capabilities:

The biggest significance of entrepreneurship lies in the fact that it helps in identifying and developing managerial capabilities of entrepreneurs. An entrepreneur studies a problem, identifies its alternatives, compares the alternatives in terms of cost and benefits implications, and finally chooses the best alternative. This exercise helps in sharpening the decision making skills of an entrepreneur. Besides, these managerial capabilities are used by entrepreneurs in creating new technologies and products in place of older technologies and products resulting in higher performance.

2. Creation of organisations:

Entrepreneurship results into creation of organisations when entrepreneurs assemble and coordinate physical, human and financial resources and direct them towards achievement of objectives through managerial skills.

3. Improving standards of living:

By creating productive organisations, entrepreneurship helps in making a wide variety of goods and services available to the society which results into higher standards of living for the people. Possession of luxury cars, computers, mobile phones, rapid growth of shopping malls, etc. are pointers to the rising living standards of people, and all this is due to the efforts of entrepreneurs.

4. Means of economic development:

Entrepreneurship involves creation and use of innovative ideas, maximisation of output from given resources, development of managerial skills, etc., and all these factors are so essential for the economic development of a country.

Factors affecting Entrepreneurship:

Entrepreneurship is a complex phenomenon influenced by the interplay of a wide variety of factors.

Some of the important factors are listed below:

1. Personality Factors:

Personal factors, becoming core competencies of entrepreneurs, include:

- (a) Initiative (does things before being asked for)
- (b) Proactive (identification and utilisation of opportunities)
- (c) Perseverance (working against all odds to overcome obstacles and never complacent with success)
- (d) Problem-solver (conceives new ideas and achieves innovative solutions)
- (e) Persuasion (to customers and financiers for patronisation of his business and develops & maintains relationships)
- (f) Self-confidence (takes and sticks to his decisions)
- (g) Self-critical (learning from his mistakes and experiences of others)
- (h) A Planner (collects information, prepares a plan, and monitors performance)
- (i) Risk-taker (the basic quality).

2. Environmental factors:

These factors relate to the conditions in which an entrepreneur has to work. Environmental factors such as political climate, legal system, economic and social conditions, market situations, etc. contribute significantly towards the growth of entrepreneurship. For example, political stability in a country is absolutely essential for smooth economic activity.

Frequent political protests, bandhs, strikes, etc. hinder economic activity and entrepreneurship. Unfair trade practices, irrational monetary and fiscal policies, etc. are a roadblock to the growth of entrepreneurship. Higher income levels of people, desire for new products and sophisticated technology, need for faster means of transport and communication, etc. are the factors that stimulate entrepreneurship.

Thus, it is a combination of both personal and environmental factors that influence entrepreneurship and brings in desired results for the individual, the organisation and the society.

Functions of an Entrepreneur:

1. Innovation:

An entrepreneur is basically an innovator who tries to develop new technology, products, markets, etc. Innovation may involve doing new things or doing existing things differently. An entrepreneur uses his creative faculties to do new things and exploit opportunities in the market. He does not believe in status quo and is always in search of change.

2. Assumption of Risk:

An entrepreneur, by definition, is risk taker and not risk shirker. He is always prepared for assuming losses that may arise on account of new ideas and projects undertaken by him. This willingness to take risks allows an entrepreneur to take initiatives in doing new things and marching ahead in his efforts.

3. Research:

An entrepreneur is a practical dreamer and does a lot of ground-work before taking a leap in his ventures. In other words, an entrepreneur finalizes an idea only after considering a variety of options, analyzing their strengths and weaknesses by applying analytical techniques, testing their applicability, supplementing them with empirical findings, and then choosing the best alternative. It is then that he applies his ideas in practice. The selection of an idea, thus, involves the application of research methodology by an entrepreneur.

4. Development of Management Skills:

The work of an entrepreneur involves the use of managerial skills which he develops while planning, organizing, staffing, directing, controlling and coordinating the activities of business. His managerial skills get further strengthened when he engages himself in establishing equilibrium between his organization and its environment.

However, when the size of business grows considerably, an entrepreneur can employ professional managers for the effective management of business operations.

5. Overcoming Resistance to Change:

New innovations are generally opposed by people because it makes them change their existing behavior patterns. An entrepreneur always first tries new ideas at his level. It is only after the successful implementation of these ideas that an entrepreneur makes these ideas available to others for their benefit. In this manner, an entrepreneur paves the way for the acceptance of his ideas by others. This is a reflection of his will power, enthusiasm and energy which helps him in overcoming the society's resistance to change.

6. Catalyst of Economic Development:

An entrepreneur plays an important role in accelerating the pace of economic development of a country by discovering new uses of available resources and maximizing their utilization. To better appreciate the concept of an entrepreneur, it is desirable to distinguish him from an entrepreneur and promoter. Table 4.1 outlines the distinction between an entrepreneur and entrepreneurs, and Table 4.2 portrays basic points of distinction between an entrepreneur and promoter.

MSME:

Meaning:

Definitions of Micro, Small & Medium Enterprises

Manufacturing Enterprises-The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery.

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

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified are as under

Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

Project Report :

Project Preliminary Report is a formal document that describes specific activities, events, occurrences, or subjects of a project to explain progress of the project up to a certain point in time (but not later than completion time). This document is presented and communicated at project status meetings to explain what goals, deliverables and results are produced and what activities are still in progress. The document serves as the basis for developing the final project report.

A typical preliminary report for projects highlights the following data:

- *Problem/need:* A clear description of the problem or need the project aims to handle.
- *Proposed solution:* a brief description of how to address the problem/need.
- *Work effort:* An analysis summary of work relevant to the project.
- *Status:* current state of project work, including activities completed and unfinished.
- *Evaluation:* an analysis and assessment of project work by specific criteria such as cost-effectiveness, feasibility, manageability, performance, others.
- *Schedule:* a timeline with specific milestones and events related to project work.

Meaning of Detailed Project Report (DPR):

Detailed Project Reports (DPRs) are the outputs of planning and design phase of a project. DPR is a very detailed and elaborate plan for a project indicating overall programme, different roles and responsibilities, activities and resources required for the project. To be more precise,

A DPR is a final, detailed appraisal report on the project and a blue print for its execution and eventual operation. It provide details of the basic programme the roles and responsibilities, all the activities to be carried out and the resources required and possible risk with recommended measure to counter them.

The success of project is measured on the basis of:-

- Whether the project was completed on time.
- Whether actual cost of project was within reasonable limits of escalation.
- Whether after completion of the project it was able to deliver the products of desired quality and in adequate quantity to clients satisfaction at profitable costs.
- Whether the project gestation period was within planned duration.

The design stage is a blue print which on paper gives a great length and detail what has to be done to convert the corporate investment in a feasible project idea and ultimately a profit making enterprise. The top management policy guidelines, its impact on the project life, appraisal in terms of financial viability are dealt in great detail. The DPR is the basic of specification, contract drawings, detailed technical feasibility, financial feasibility, execution of project from practical point of view. The DPR should also highlight the nature of inherent risks in the project & potential external risks that will influence the outcome of the project. Also the DPR should give the measures for risk management and risk mitigation.

The main sub-division in a DPR is:-

- General Information of the project.
- Background and the experience of the project promoters.
- Details and working result of industrial concerns already owned and promoted by the project promoters.
- Details of the proposed project:-
 1. Plant capacity
 2. Manufacturing procedure adopted
 3. Technical knowhow/ tie-ups.
 4. Management teams for the project.
 5. Details of land, buildings and plant and machinery.
 6. Details of infrastructural facilities (power, water supply, transport facilities etc.)
 7. Raw material requirement/ availability.
 8. Effluents produced by the project & treatment procedures adopted.
 9. Labour requirement and availability.
- Schedule of implement of the project.
- Project cost.
- Means of financial projects.
- Working capital requirement/arrangements made.
- Marketing and selling arrangement made.
- Profitability and cash flow estimates.
- Mode of repayment of loans.
- Government approvals. Local body consents and statutory permissions.
- Details of collaterals security that can offered to the financial institutions.

Preparation of DPR

The preparation of DPR requires wide variety of expertise. A number of decisions are mutually related. For example: requirement and training plan is dependent on the nature of the technology, availability in the general employment market in the region, need for foreign collaboration and training, extent of specialised plant and equipments supplied from abroad etc.

Financials requirements are dependent on the time schedule for the implementation of the project. The nature of issue to be included in the commercial terms and conditions depend on the extent of the spread of the contractors. If only local and regional parties are in picture, the scope and jurisdiction for disputes gets restricted.

A number of issues largely depend upon managerial perceptions and top management policies. On the whole preparation of DPR is a complete task. Therefore highly specialised agencies have come up in different areas, who undertake such task for the clients.

They are usually known as technical consultancy organisations. They specialise in some particular field. For example: Dastur & co specialises in metallurgical industries, Engineers India Ltd. specialises in oil sectors.

Even for medium sized project, it is necessary that a capable consulting firm is entrusted with the task of formulating the DPR.

Steps of preparation of DPR:

1. Client interacts with consultant.
2. Consultant takes all required inputs from client & do necessary first phase studies.
- Client evaluates it & makes all necessary changes & requests consultant to do the necessary modifications.
1. Consultant submits the revised draft for approval.
2. Consultant submits the final DPR after getting approval from client.

Evaluation of DPR:

The final responsibility of the project lies with the owners. Therefore, the owner's organisation must have an appropriate mechanism for project evaluation of a DPR submitted by the consultant. Apart from care in selecting the most suitable consultant in the first place the owner's must pose the following questions.

- What are the sources of critical data & information that have form the basic premises of the DPR, like demand, capital cost, input cost etc?
- The extent to which the strategic plan of top management have been reflected in the design and the repair?
- What were the various alternative considered, and the methodology followed for choosing one among them?
- The extent to which the design fulfils all applicable statutory requirements and regulations, both currently in force and those may be foreseen?
- Identification of potential problems, bottlenecks and/or major risks involved in the project.
- Degree of detailing.
- Influence of complementary/ completing projects.
- Scope for future expansion/modification/adaptation to new technologies and so on.

The above list is a simple of the types of question that the owner's may pose to the consultant during the process of selection, appraisal of the first draft and before giving the approval.

Location of the Project:

One of the important issues related to project decisions and in DPR preparation is the location of the project. The location of project can be:

- Input or supply oriented
- Output or market oriented.

Input or supply oriented: The major consideration governing the location decision concerns with the availability of various inputs for the project & their transportation from respective sources to the project site. Whenever a project entails processing of bulky raw materials and the processing reduces the bulk by refining/processing operation, it makes economic sense to move the project nearer the supplies so as to cut down the transportation costs. The strategy of NTPC to locate major pit head thermal power plants stems from this logic. Instead of transporting coal over long distance, it may be more economical to convert coal into electrical energy at the pit head itself and transmit the electrical energy into high voltage transmission system to consumption centres. With the advent of high voltage direct current transmission technology, such options have become more cost effective.

Output or market oriented: The gas based power plants may be located near the consumption centres, particularly if gas pipelines have already been laid nearby for other projects. This enables saving on the transmission line costs and power losses in transmission.

The location strategy is largely governed by total transportation cost for entire chain, including transportation of all inputs of various sources to the processing site and that of all outputs to the consumption centres. This exercise needs the sources and quantities of all the supplies available , their unit transportation cost to each location and the demands at different consumption centres, coupled with the unit transportation cost to the finished goods to each consumption centre of each location.

The location strategy also depends on:

- The regulatory framework of the region.
- Availability of skilled/unskilled manpower
- Industrial relations situation.
- Infrastructural support.

Layout of the project:

The layout itself has profound implication on the profitability and efficiency of any enterprises. Even safety considerations can lead to major changes in the layout.

The layout for a project determines the location of various departments, processes; work centres, machines & service function as well as transportation routes for the movement of materials through these facilities.

A good layout should try to reduce material handling cost to the minimum, ensure flow of men and materials between processes without any back tracking, provide adequate safety for men and equipment and enhance labour productivity & efficiency.

Safety must be a very important consideration for deciding locations of potentially hazardous facilities. For instance storage of hazardous & inflammable chemicals & materials must be located far away from the general centre of activities at economical & practically feasible distance.

Facilities which are prone to fire hazards should be located in a fashion that is easy and quick for multiple fire tenders to arrive & extinguish the fire. It may be worthwhile to give a specific safety check to a layout before finalising it.

Equipment & Process Technology (EPT):-

The equipment and process technology (EPT) decisions are related to design of facilities and system that produce and deliver goods, products and services of desired quality and required quantity. EPT are categorised as follows:

Output decisions are related to demand forecast and marketing strategy for achieving planned market share.

The input and process decisions are complementary to each other. The input and process decisions contribute significantly to “Make or Buy” type of decisions. The “Make or Buy” decisions lead to finalisation of various inputs as well as processing and assembly requirements.

Once the production processes are identified then next set of decisions are related to choice of technology. Choice of technology decisions has to be a judicious mix of capital and labour components which are the major factor of production.

Use of modern state of art technology ensures more automation, requiring less labour but leads to high initial investment. On the contrary use of traditional technology and processes leads to lower automation with requirement of more labour and lower initial investment.

Therefore, the trade off lies between high capital and lower labour cost on one hand and low capital and high labour cost on the other hand.

Apart from cost considerations and relative proportion of mechanisation, other factors that are to be considered are scale of operations: quality and level of skills required also influence the choice of technology decisions.

Depending on the market share & capacity forecasts, a particular level of technology may be the optimum choice. In event of low market demand & lack of availability of skilled work force to operate high end & high volume technology may lead to sub optimal utilisation of the said technology.

Also, there would be substantial increase in the subsequent maintenance costs which may raise affordability issues. Thus, the choice of EPT is a complex task, requiring wide knowledge & information about different options with relative merits and demerits of each option.

In case the procurement of EPT requires high initial investment or decision making process is taking unusually long time then the option of technology collaboration may be explored.

In this option, the organisation may explore possibilities of technical collaboration agreement with some organisation that has had considerable experience in use of the proposed technology and are in position to impart their knowledge to others. Such a collaborating organisation may be found in the country or may be from abroad.

Environmental Impact Assessment (EIA):-

EPT must have a dedicated section of environmental Impact Assessment (EIA). Such an assessment would have the specifications of the environment which is known as the base level specification before setting up a project.

Thereafter, an estimate should be made as to the impact of the project operations on various base level parameters. These could cover air, water and soil parameters. The disposal of soil, liquid and gaseous effluents generated by the project would lead to increase in pollution load over the base levels.

After estimating the impact of the project on the base level of the environment the DPR should recommend specific control measures & effluent treatment facilities so that the environment pollution can be controlled within permissible limits.

The DPR should ensure that the provisions are adequate for fulfilling the legal requirements in the locality where the project is scheduled to come up. This calls for the detailed knowledge of all the state level and national level provisions with respect to environmental protection.

Many of the provisions call for obtaining clearances from controlling bodies. The DPR should also include a time schedule for obtaining all the required clearances.

Commercial aspects:-

DPR is related to general guidelines and conditions that should govern all types of contractual relationships likely to be entered into during the project.

In particular, general guidelines for any eventual arbitration procedures are indicated, specifying the nature of issue that may be referred for arbitration, choice of arbitrator by both the parties and the place where such proceedings should be held.

DPR should also include guidelines related to supply, erection, and commissioning & guarantee test of various equipments required for the project.

DPR should also lay guidelines for tendering process whether to follow single stage or two stage tendering. It may also contain model document and formats related to invitation to tenders, specifications etc.

DPR will also contain guidelines for vendor short-listing and networking. Some points related to vendor detailing that are highlighted in the DPR are as cited below:

- Commitment with respect to delivery period & penalty conditions, in case of failure to fulfil the commitment.
- General terms of payment including progress payment.
- Inspection and testing procedure and customer hold points.
- Network plan for the contract and monitoring and control system.
- Guarantee test, schedule, procedure, criteria for success and accompanying bank guarantee.
- Responsibility for damage in transit or during erection and/ or commissioning.
- Condition of admissibility of any increase in the price of the contract.
- Contract variations and the manner of handling them.
- Mobilisation advance to be paid initially.
- Responsibility to supply the equipments and necessary accessories and spare parts.

Financial Aspects:-

The DPR incorporates a much detailed projection of the costs and revenues expected during the projected lifespan of the operation phase. The principal input to this comes from operational costs.

Also the other financing cost like depreciation, interest on long term loans and short term working capital loans, writing off of pre-operative & preliminary expenses, guarantee commission etc. Income tax calculation are also included.

The DPR provides projections for the following statements:

1. Profit and loss statement.
2. The balance sheet.
3. The fund flow statement.

For the project phase, the DPR provides an estimate of the phase requirement of capital. This plan forms the basis of a strategic plan for raising the funds from external sources like terms lending institutions and through public issue of stocks and/or bonds.

The DPR would include a recommendation schedule for ensuring adequate flow of funds for the timely completion of the project with adequate provision for normal contingencies.

The DPR would also include for the project phase a recommended system of monitoring & control of the financial progress of the project, vis-a-vis the physical progress. The system is an essential ingredient for adequate financial control during the execution & the termination phase of the project.

Socio-economic Aspects:-

Morden day projects also analyse the socio-economic impacts on their immediate surroundings. The attitude of local residents plays a crucial role in the successful completion of the project in any new locality or region.

Generally, any medium to large type of project will lead to displacement of original residents and tenants of the land & bring about a significant change in the pattern of earning livelihood, brings in wide disparity in the standards of living between those who are employed in the project and those who are left out of it, raises large employment expectations among the local population.

The effect are more glaring based on the size of investments, level of technology used & innovation potential of the project. However not all factors contribute in the socio-economic influence but it is for sure that a combination of factors based on the size & type of project will surely lead to creation of social discontent.

The project is seen as a source of social turmoil & discontent & its progress gets affected severally through different forms of social unrest. It is, therefore, essential to make an effort at the early stage in planning process to reach out the population likely to be affected by the project.

Community based & community participated demographic surveys may be conducted for identifying the options for direct as well as indirect source of employment. DPR should also highlight planning & execution methods of specific community development programmes which help in developing a symbiotic relationship with the local community.

Incentives for MSME :

The Micro, Small & Medium Enterprises play a major role in broad basing the industrial growth and augmenting employment opportunities, revenue exports and economic growth. To develop the sector and to address the specific requirements of MSME sector and drive their growth, Government of Odisha has formulated the “Odisha MSME Development Policy, 2015”.

To achieve each of the objectives of IPR 2015, the following strategies have been designed: a) Setting up a single window facilitation cell at DIC's, which will assist the investors in setting up business , and handhold the entrepreneurs for the complete project cycle. b) Enhance competitiveness of MSMEs through cluster development. Promoting cluster based development of MSMEs either on their own or with mother industries for bringing about more production efficiencies, branding and bringing about economies of scale c) Facilitate setting up of ancillary & downstream units of existing and upcoming Large & Mega Industries. d) Facilitate enhanced flow of credit to MSMEs. e) Establish Industry-Institution linkages f) Thrust to entrepreneurship development programme g) Convergence of schemes and resources Odisha MSME Dev Policy – Draft 5 h) Strengthening of the institutional support mechanism for MSMEs i) Developing the internal capacities of the DICs, so that their practices and capabilities are on par or above the corporate practices. j) Identification and revival of sick units, including prevention of sickness by developing a district level monitoring system 2. For better administration of the policy, the policy has been distinguished into 1. Enabling Framework: The objective is to create an enabling environment which shall promote healthy and sustainable development of MSME and improve facilitation of new investments to make the whole process streamlined for ease of doing business in the state. 2. Support Framework: This section explains the policy interventions which support development of MSME through facilitating Land and Infrastructure development, Support for downstream industries, Marketing Assistance in MSME Promotion, Export promotion, Raw material

procurement and Technology up gradation. 3. Incentive framework: The section briefs the incentives proposed in the policy to promote the MSME sector and the handholding support to access credit to the sector.

The various incentives given for MSME sector are :

1. Ease of doing business
2. Capacity building & Skill Development
3. Cluster development
4. Revival of sick units
5. Land and Infrastructure development
6. Support for downstream industries
7. Marketing Assistance in MSME Promotion
8. Export promotion
9. Raw material procurement
10. Technology up gradation
11. Financial support framework

The detailed analysis of the incentives under the above mentioned heads can be read from <http://www.osiclttd.in/>.