
UNIT 2 ENTREPRENEURSHIP: CONCEPT AND FUNCTIONS

Structure

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20 OBJECTIVES

After reading this Unit you will be able to :

- understand the concept of entrepreneurship,
- know about the qualities of an entrepreneur,
- **familiarise** yourself with the process of establishing an enterprise,
- learn about the factors that contribute towards a successful enterprise, and
- know the importance of entrepreneurship in tourism.

2.1 INTRODUCTION

Small and Medium Enterprises (SME) play a crucial role in economic growth and **development**. This is because:

- most of the new job opportunities are coming through SME - particularly in the service sector,
- there is a growing recognition of their contribution in **raising productivity**, and
- the entrepreneurs are contributing in the promotion of innovative services, products or technologies.

The role of **SME's** becomes more **significant** in the case of tourism industry, because of its very nature **i.e. being** a service industry. For example, leaving aside a few big companies most of the tour operators or travel agencies come under the category of SME. The same is true of the accommodation sector in India and so on. At most of the destinations (already developed or in various stages of development), members of the local population strive to set up their own small business or enterprise for providing services to the tourists. In such cases the capital investments are low and infrastructural requirements are less. Yet, the entrepreneurial spirit is quite high and direct linkages are established with the local economy. However, the success, growth and sustenance of the enterprise will depend on the:

- managerial qualities,
- application of management skills, and
- service orientation

You must remember that in your own enterprise the functions of an **owner as well as that of a manager are performed by you only**, There is hardly any gap between **decision** making and

action. How competently you integrate and exercise these dual **functions determines** the pace of your success or failure.

In this Unit we **familiarise** you with different aspects of entrepreneurship. These include the skills and qualities required in an entrepreneur along with the processes that an **entrepreneur** undergoes to perform certain functions. These might be of help to you in case you intend to set up your own enterprise and work for its success.

2.2 ENTREPRENEURIAL QUALITIES

Well, to begin with you must remember that an entrepreneur is a combination of both a thinker and a doer. Someone who perceives an opportunity and creates an organisation to pursue it **i.e.** one who assimilates the idea, resources and organisation for creating and pursuing a new venture, is an entrepreneur.

The entrepreneurial process involves all the functions, activities and actions linked with **perceiving** an opportunity and creating an organisation to pursue them.

You **must remember** that a person engaged in small business may or may not be an entrepreneur. For a small business to be considered as **an** entrepreneurial effort it must be characterised by:

- introducing of a new **product/service**, or
- there must be something different, inventive or **innovative** about the business venture.

You will be able to demonstrate your Entrepreneurial Spirit if you are:

- willing to take up challenges,
- a desiring to create a new venture, and
- hoping to be the master of your own future.

But you must evaluate your own **self vis a vis** entrepreneurial qualities. Some of the questions you can ask are:

- Can I sense an opportunity?
- Do I have the confidence to take the risk?
- a Can I take the initiative?
- Is it possible for me to mobilise resources?
- Do I have the capacity to plan, **organise**, implement and pursue?

Entrepreneurial success depends on the management of your own self. For this you require certain traits, qualities or **behavioural** competencies like:

- 1) Risk taking: As an entrepreneur you will have to take risks. Not **all** have the capacity to do this but an entrepreneur seeks it - not wildly, but in a calculated way. In order to develop your capacity to take risks you ought to be an optimist, hoping for success. Further, hurdles in the **way** are to **be** crossed, not to be afraid of. Failures should not unnerve you to withdraw, they ought to **be** taken as feedback to reassess and change. You ought to objectively **analyse** the situation and develop self confidence.
- 2) Self-starting, Creativity and Innovativeness: As an entrepreneur you start a venture under your own authority using your ideas and energy as justification. The new ideas that you pick are to be quickly operationalised. To pick ideas you have to be imaginative using intuition and observation. In **an** industry like tourism, the attraction of the product or service is to be always there. Hence, you should always have the sense for identifying **or** improving the product or service. For this you have to be creative and innovative. Besides, you might have to explore new strategies for marketing your product or service or you might **have to add** new attributes to them. **You have** to experiment with new ideas and there **will** always be a certain amount of uncertainty linked with their implementation. You should have the capacity to face this with readiness.

- 3) **Initiative:** As an entrepreneur you don't pick **ideas** only to day dream about them or to build castles in the air. You take the initiative to operationalise them. This you do independently without waiting for orders or instructions. You set your **own goals**, directions and guidelines.
- 4) **Information seeking :** As an entrepreneur you have to update your knowledge. For this you have to seek information from a variety of sources. For example, you would like to know about the financial institutions, their rules and interest rates etc. to decide **where** to borrow from. Similarly, **you must** know about your competitors in business, the strength or weakness of their product, *etc.* In fact **obtaining and using information has a bearing on your growth and success.**

You can seek information through various means :

- do personal research,
 - observe what is going on, and
 - **consult** experts etc.
- 5) **Problem Solving :** You must start with the assumption that there **will** be problems. At the same time you must have the confidence that you can solve them. This does **not** mean that you solve them by yourself only. You can always look for such resources which can help you. Accept the problems as something normal, maintain your control and devise strategies. Chances are you might come up with more than one solution. Here again you will depend on your own judgement and calibre of risk-taking regarding the decision about which solution to apply.
 - 6) **Quality assurance and monitoring :** The success of the entrepreneur will depend on the quality of the product or service. For this you must set up some standards. To maintain these standards constant monitoring is necessary.

Besides these, certain other entrepreneurial competencies include :

- faith in systemic planning, and
- having pursuance **skills** and **convincing/influencing** abilities etc.

Check Your Progress - I

1) Who is an entrepreneur ?

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2) Mention the factors that contribute towards the success of an enterprise.

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3) How **can** you demonstrate your entrepreneurial spirit ?

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4) Discuss on a separate sheet the qualities required to be an entrepreneur.

2.3 ENTREPRENEURIAL PROCESS

In the entrepreneurial function both the individual as well as the environment are equally important. For example, a person may be fully qualified, the idea excellent and the new product or service offered. But in case the conditions are wrong or the context inappropriate, the possibilities will remain largely underdeveloped. Hence, the four components under the four C's theory of Entrepreneurship include :

- Characteristics **i.e.** psychological traits
- Competencies **i.e.** Skills
- Condition **i.e.** in family, firm or community
- Context **i.e.** environmental factors

It is not just that these components be present but it is their simultaneous interaction also that needs to be looked into, to gauge the levels of entrepreneurial activity. If the placement of these components is towards the positive side, the level of activity will be higher whereas a negative placement would keep the level on the lower side. You must also remember here that getting **an** idea for a new business is not just enough. It has to be pursued and this pursuance, besides the personal attributes, depends on a variety of factors that can be termed as environmental variables. These could be economic factors or social factors or both.

- economic factors include **market incentives** and **sufficient stock of capital**
- social factors take into account **customs, cultural values, family environment**, etc.

Besides these, the **government policies, rules and regulations** also have a bearing on the environmental process.

In the subsequent Sections we discuss the relevant stages for establishing a small scale enterprise.

2.4 IDENTIFYING THE OPPORTUNITY

When you wish to set up an enterprise you have to identify an opportunity. This process is referred to as **Opportunity Scanning/Sensing and identification (OSI)**. Every enterprise starts when an opportunity is:

- identified,
- **defined, and**
- assessed

In other words we **can** say that after identifying the **business** opportunity an entrepreneur establishes **an** enterprise and then manages it for profit **generation**.

It is not easy to define how an entrepreneur identifies an opportunity. The **National Council of Applied Economic Research (NCAER)** conducted a survey on the **Structure and Promotion of Small Scale Industries in India** with a view of drawing lessons for future development. The survey **probed** the existing entrepreneurs as to what **motivated** them for establishing their enterprise. The answers were:

- **34.5%** because of their **previous experience** and **interest** in the industry,
- **22.5%** because of the desire to be **self-employed**,
- **12.3%** because the **family was in the same business**,
- **11.7%** because they wanted to **make a livelihood from an industrial enterprise**, and
- **10.5%** because they saw the **growth potential** in the industry.

Well, besides the findings of this survey, entrepreneurs have selected products or services which:

- have a **good demand** in the market,
- show high **profitability**,
- provide **missing links** in the business chain,
- have specific **advantages available to them i.e.** incentives, reservations, etc.

In a developing industry like tourism there is no dearth of entrepreneurial opportunities. However, one has to be a keen observer of the customer's tastes, needs and choices **i.e.** full profiling of the tourists and the intermediary agencies has to be undertaken (see Units 1 and 2 of **TS-2**). However, you should remember here that instead of keeping short term profits in mind you should contribute towards the growth of responsible tourism and eco-friendly tourism. And this area itself today provides many opportunities. See the following examples:

- 1) J.D. **realised** that a number of visitors to a wild life sanctuary might not be attracted to only looking at a tribal village but might like to share the experiences of tribal life. He mobilised resources to construct a tribal village called the Spice village, employed local **tribals** and offered accommodation and local cuisine. **The complex is a prime** tourist attraction.
- 2) **Looking** at the success of Heritage hotels many owners of small **havelies** in **Rajasthan** started equipping them for the tourists and are doing good business today. People in other states have followed suit.
- 3) Entertainment in the evenings is something **lacking** for the tourists. Mrs. K. rented a farm house. She started a kitchen and also arranged folk dances and music in the nights. She established links with some tour operators who put a night at the farm house in the **package they** sold to tourists. Her business has picked up.
- 4) KK heard at a social gathering that the Department of Tourism was developing a special tourism promotion plan in Japan: He picked up more information in the travel trade circles. He was aware that there was at least a year's time for the promotion campaign to take off and another six months for results. He started learning Japanese as he had an aptitude for learning languages. Simultaneously, he learned the skills required **to** be an escort. Today he free lances and is the most sought after tour escort. Now he is toying with the idea of opening an agency to provide escort services only.

In each example the situation was different.

- In the **first case** JD used his **own imagination**
- In the second case the **idea was picked up from a trend, i.e.** the **Heritage**
- In the third case the **idea generated from observation and experience** resulting in creating a new attraction
- In the fourth **case** KK who was **looking** for an opportunity was also keeping his ears and eyes open. **He sensed an opportunity and picked up the skills.**

Yet there are situations when people are motivated through "intensive campaigns". For example, to meet the accommodation problem, the Department of Tourism motivated

people to start paying **guest** accommodation and offered certain incentives. In some areas people were given training in house-keeping, they were **given** financial assistance and even construction designs in which they wanted to add a room.

This **brings in** another aspect that right at the opportunity scanning stage itself a person **needs assistance, consultancy and dependable information**. This the person requires not only for the scanning of environment but also to assess one's own **strengths and weaknesses** along with the would be threats. In management language this is termed as the SWOT analysis.

S - Strengths

W : Weaknesses

O - Opportunities

T - Threats

An entrepreneur should analyse the strengths, weaknesses, opportunities and threats in the process of converting a potential opportunity into the opportunity.,

2.5 ASSESSING THE MARKET

While **identifying** the product or service, a new entrepreneur has to look for the **market potential and growth prospects**.

Entrepreneurs need a distinctive competence **i.e.** "entrepreneurial desire to begin a business coupled with the **ability** or experience to compete effectively". This means that one should **have** the **market analysis and the managerial ability** to outperform the competitors. In the NCAER survey, three out of four entrepreneurs had chosen the product " **as it was marketable and had potential demand.**"

In TS-1 Block-6, we have already **familiarised** you with different aspects related to tourism marketing along with the characteristics of a tourism product. Hence, you must once again read Units 20 and 21 of that course and relate them in the context of entrepreneurship. Market assessment exercise is necessary to answer questions like:

- whether the product or service being offered will have a sufficient demand or not
- Who would buy?
- Why would they buy?
- How many would buy?

In management jargon this is called **Market Demand Analysis**. At the same time, in the **case** of new or different tourism products or services there are always the **possibilities** of **creating a demand** directly among the tourists or through the intermediaries. But again this **will** be **through** adopting certain marketing techniques.

Analysing the **competitive situation** is **another** important aspect which an entrepreneur must take into account right at the initial stages.

Market Demand Analysis itself gives an idea about the existent competition in the market and the market share of each competitor. In fact a competitive situation analysis helps you in designing your product. For example, you want to open a restaurant. But there are already many restaurants doing flourishing business. What do you do? Well you may take the following steps:

- 1) Find out how many restaurants are there in the vicinity where you want to start.
- 2) **Visit** them as a customer, assess their menu and environment, look at the service time, taste the **dishes**, check the prices and any added attractions they have. Also observe whether the other customers have satisfied expressions or not, etc. This **will** enable you to understand the strengths and weaknesses of the competitors.
- 3) Accordingly, you can decide what unique **attractions/qualities** you **can** offer in your restaurant.

You must remember here that once a product gets going, many more entrepreneurs enter the field to produce the same product. Particularly in the case of a tourism product the small entrepreneurs compete with each other. Hence, you should always be open to adding more attractions to your product.

Another necessary component is understanding the **trade practices and linkages**. There is a long line of intermediaries in the tourism sector (see TS-1, Block-2) and one has to take into account:

- discounts,
- commissions,
- credit terms,
- legal implications,
- infrastructural facilities, market image and market reach of the intermediaries one is dealing with, etc.

Realistic market assessments of the types mentioned above enable the entrepreneur in establishing the new business.

Check Your Progress-2

1) What do you understand by OSI?

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2) Why should you do SWOT analysis?

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3) Why should an entrepreneur analyse the competitive situation?

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2.6 RESOURCE MOBILISATION

An entrepreneur, besides having the idea has also to **mobilise** different resources for **establishing** the business. In this Section we briefly deal with some of the essential resources that have to **be** mobilised.

- 1) **Finance:** Financial inputs and planning are necessary for setting and running any enterprise. In this regard you need:
 - **initial funds** to set an enterprise
 - **working capital** to run the enterprise

In setting up an enterprise your **own funds** play a major role. Obtaining funds from relations and friends and loans from financial institutions are other modes of generating the initial capital. Similarly, as profits take time to come, an entrepreneur has also to raise **working capital** and for this again the modes mentioned above are relied upon.

In Block 4 of this course we have dealt in detail with **financial** planning and the management of finances. Suffice it to mention the following aspects:

- i) An entrepreneur should go for **financial forecast** which includes estimates about:
 - capital requirements,
 - working capital requirements,
 - capital structure (i.e. the debt-equity ratio),
 - credit policy, and
 - contingencies.
- ii) An entrepreneur should be aware of the sources of finance. For example,
 - own capital,
 - banks,
 - borrowing from friends/relatives/others,
 - term loans from financial institutions, and
 - personal loans on assets like National Saving **Certificates/Insurance Policy/Provident Fund**, etc.

Often it is found that an entrepreneur has been able to raise initial funds but faces acute shortage of **working capital**. The best thing for an entrepreneur to do is to **take the advice of a financial consultant** in this regard. However, you must take into account the following aspects when you are arranging funds:

- interest rate on borrowings,
- time required in obtaining such finance as processing loan applications takes time,
- duration for which funds are required (say six months, a year or more),
- your repayment capacity, and
- conditions stipulated by lenders **of** funds.

As an entrepreneur you should not get disheartened if helpful attitude or a **friendly** environment is missing while dealing **with** financial institutions. **Instead of accepting** defeat you must keep pursuing and try to remember, never to put forth exaggerated claims.

- 2) **Manpower requirements:** To conduct your business you need **appropriate manpower at the right time, in the right manner with right skills**. For this, you should:
 - make an inventory of the required manpower on different levels and for different jobs,

- decide on their **qualifications** and skills,
 - decide on the kind-of induction training you would give to those who join you,
 - equip yourself with the knowledge of labour laws and regulations,
 - devise recruitment policy and wage structures, and
 - have a future manpower plan, etc.
- 3) **Technology:** The type of technology to be used is again to be decided at the initial stage. This has a bearing on designing the product as well as deciding on manpower planning and **finances** required, etc. Would you require machines? What kind of energy would **you use**? Would the use of computers be cost effective? Which computer make and brand to buy? are **all** relevant questions in your decision making process. You must **realise** that **in many** segments of tourism like accommodation, travel agency, tour operators, etc. technology is playing a major role in business operations.

2.7 OTHER CONSIDERATIONS

There are certain other considerations which the entrepreneur has to take into account while making the operational plans.

- 1) **Location:** An entrepreneur has to take the crucial decision regarding the location of the enterprise. **Some** of the factors which influence this decision are:
- personal factors like family conditions, individual likes or preferences, etc.,
 - geographical conditions,
 - competition in the area,
 - market conditions,
 - availability of manpower resources, and raw materials,
 - local laws, tax structures and regulations,
 - attitude of the local community or the host population,
 - environmental factors
 - cultural values and customs
 - political stability
 - peaceful atmosphere, and accessibility, etc.

You have to evaluate the location keeping the above factors in view and relating them with your experience.

- 2) **Organisational Structure:** An entrepreneur **has** to decide on the nature and structure of the organisation. At the ownership level the decision would be whether to go for sale-proprietorship or partnership, etc. (see Unit-3). Simultaneously, a decision regarding the structural aspect **i.e.** whether it should be hierarchical or not is also needed.
- 3) In the tourism sector an entrepreneur must also take into account **his or her responsibilities towards the destination, host population and environment**. A **friendly** and healthy approach in this will serve the interests of both, the locals as well as the entrepreneur.

After **all** these considerations the entrepreneur should **develop** a **project report** or the **business plan** or get it developed. This is a descriptive document **with** operational details, mission statement, cost analysis and implementation schedule, **etc.** It is not only the **blue print** of the organisational aims and activities but an **essential** document needed for arranging **finance**, developing cost and profit estimates, **resource** planning and **feasibility** testing.

1) What **kind** of financial inputs do you require for entrepreneurship?

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2) Mention the factors that could influence your decision in selecting the location of your enterprise.

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3) Why do you need a business plan?

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28 LET US SUM UP

In this Unit we attempted to give you an idea about the characteristics of an entrepreneur and the process of entrepreneurship. There are ample opportunities for those **planning** to enter the tourism sector. You have these opportunities right in your own location **if** your area is a tourist destination. But to use these opportunities you ought to have entrepreneurial qualities and must be familiar with the entrepreneurial process. It is essential that you have a professional approach with an understanding of management concepts and functions. Environmental cautiousness, respect for local customs, involvement of local population and job opportunities for them will add to your success. Here you must take note of the various government schemes for motivating, financing and training entrepreneurs and make use of them.

2.9 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress-1

- 1) Check your answer on the definition given in Sec. 2.1.
- 2) Managerial qualities, application of management skills, service orientation, etc. .
- 3) Read Sec. 2.2 for your answer.

Check Your Progress-2

- 1) Mention the Opportunity Scanning and Identification process.
- 2) Obviously to understand your strength and weaknesses as well as those of your competitors. See Sec. 2.4.
- 3) Read Sec. 2.5.

Check Your Progress-3

- 1) Read point 1 of Sec. 2.6.
- 2) Read point 2 of Sec. 2.
- 3) Consult the last para of Sec. 2.7 for your answer.