

Lecture 11

ENTREPRENEURIAL ENVIRONMENT

Learning Outcome

- To study different segments of entrepreneurial environment
- To analyse the environment

Introduction

Entrepreneurship environment refers to the various facets within which enterprises- big, medium, small and other have to operate. The environment therefore, influences the enterprise. By and large, an environment created by political, social, economic, national, legal forces, etc influences entrepreneurship.

Entrepreneurial environment is broadly classified into six important segments, namely, (1) Political environment, (2) Economic environment, (3) Social environment, (4) Technological environment, (5) Legal environment, and (6) Cultural environment

Environment

- **Political**-Political Atmosphere, Quality of Leadership
- **Economic**-Economic Policies, Labour, Trade, Tariffs, Incentives, Subsidies
- **Social**-Consumer, Labour, Attitudes, Opinions, Motives
- **Technological**-Competition And Risk, Efficiency, Productivity, Profitability
- **Legal**-Rules, Regulations
- **Cultural**-Structure, Aspirations And Values

Private Enterprise and Development

The existence of uncertainty in the economic call for the attention of entrepreneurs to play a leading role in the growth process.

Individual entrepreneurs such as farmers and small businessmen and individual enterprises such as manufacturing, construction, transport, and wholesale enterprises and collective farms continually face risks. Whether they are privately or publicly owned, they must take account of uncertainty. Private entrepreneurs and the managers of private enterprises take risk, despite the heavy costs of failure because of the possibility of high profits or large bonuses. In any case, they must run their business efficiently if they are to

make a profit and survive.

The problem usually arises because major industrial decisions, which will affect the lives of thousands of ordinary people, are taken without proper planning and without public consultation. The result is that environmental activists have no choice but to fight a rear-guard action. This often gives the impression that environmental activists are against all growth and industry. In fact, they are more than conscious of the need for a balanced approach to growth and industry. All they say is that industrial decisions ought to be taken after considering the impact on environment and also that the public has a right to know all details.

Environmental activists have repeatedly pointed out the havoc caused by some of our petrochemical, heavy chemical, dyestuff and other polluting industries, as also the environmental damage caused by large-scale open mining, quarrying and deforestation, which will take decades to reverse. For their dogged determination, these environments deserve our gratitude.

At the same time, it is now clear that technology has advanced significantly to allow efficient use of resources. Worldwide, industry has become conscious of the need to use renewable resources as far as possible and utilize non-renewable resources within planned limits. With potential development taking place in the industry, we should learn from past incidences of industrial disasters leading environmental disaster and ensure further growth, consistent with environmental protection.

In contrast, the managers of public enterprises (whether directly or indirectly state-owned or collectively-owned) tend to be risk averters. Indeed, risk-aversion is usually, and perhaps inevitably, the emphasis of public service training.

Entrepreneurs and managers of these enterprises must be offered incentives to boost their efficiency and take risks. In this case, devising appropriate incentives become imperative. A variety of possible measures- some positive, such as bonuses for managers, and some negative, such as budget and operational controls- can be used in the public sector; even so, the problem often remain intractable.

If an economy is made up of a large number of entrepreneurial units, risks can be spread among them. Even though some enterprises may fail, others will be successful and the economy as a whole can grow rapidly. When inefficient units do not have access

to subsidies or to other public assistance, they must improve their competitive position or disappear.

Such failures need not be excessively costly because the economy's expansion creates job and income earning opportunity for entrepreneurs and employees of falling enterprises. Some of these may be in "informal" or small-scale activities and may not be counted in the formal employment sector. Nonetheless, they provide gainful employment.

Unfortunately, experience shows that private enterprises have to compete to survive. In most countries public enterprises are protected from failure by implicit or explicit subsidies. Public enterprises are often expected to create employment opportunities for political reasons. But allowing public enterprises to operate inefficiently will mean very heavy costs in the long run. It affects not only a country's ability to produce efficiently but also its capacity to save and invest for future production.

Entrepreneurial Urge

Entrepreneurship is the creative 'elan' of industrial development, which for historical reasons is feeble in backward areas. It is not feasible to expect entrepreneurial urge among people who live in poverty, illiteracy and ignorance. Conceptualization of entrepreneurship in terms of self-confidence, optimism, achievement motivation and other such attributes constituting the variable, residual non-marketed services receiving the residual profit income as payment (Kilby) does not have any meaning in backward areas; because these qualities themselves need a minimum of economic well-being below which the hard preoccupations with the basic needs of life leave no room for critical reflection and initiative necessary for any enterprise. Entrepreneurial qualities are born of an environment through individuals' creative response to potential opportunities.

An entrepreneur needs a clear perception of economic opportunities and the investment capacity to pursue these opportunities. In backward areas where the basic struggle for existence is so tough, per capita income so low and where illiteracy or low level of education prevents access to business information or ideas, there is neither perception of opportunities nor the capacity to exploit these opportunities. Not only the environment is timid without brisk activities or aggressive ideas but also men are too

deprived to have an urge to know and grow. When we think of the capacity to participate in the development process, into the cosmetic growth of the soil by outsiders' investment and outsiders' profit. No effort will be successful to convert such people into entrepreneurs unless we realize the basic symbiotic nature of entrepreneurship so inextricably integrated with their total life-situation and environment. Therefore, in developing an environment and changing the life-situation, we take the first step to develop entrepreneurship.

Significance of Entrepreneurial Environment

A study of socio-political and economic environment has a great social and economic significance to the growth of entrepreneurship. Modern business is treated as a social and economic institution and is affected by the political, social and economic forces. The political environment, industrial policy, licensing policy, foreign exchange regulations, banking policy, technological development and social change form the framework within which an enterprise has to work. It is for these reasons that all business plans must be based on the immediate environment. An entrepreneurial plan cannot be framed and finalized for its implementation without its relevance to the political, social, economical and technological requirements. In fact, it is environment, which regulates entrepreneurial activities. Business environment has a positive relationship with the development of entrepreneurship.

Infrastructural Network

It has been argued that the development of industries be preceded by development of agriculture which introduces certain economic changes that culminate in industrial activities. "A developed mass agriculture is normally needed before you can have widespread successful development in other sectors" (Michael Lipton: Why Poor People Stay Poor?). But we cannot, perhaps, wait that long till "developed agriculture sector provides wage goods and savings capacity" needed to support rapid industrialization. If agricultural development does not create savings for investments on certain selected nucleus industries, leading to a number of ancillary and other related industrial units. This method has gained wide acceptance. But before such nucleus industries are set up in

backward areas, necessary infrastructural facilities lead to a development is the real development area utilise the available skills and capacities of a large number of small artisans or farmers. Otherwise, the entrepreneurial opportunities thrown up by such nucleus industries will be exploited by affluent entrepreneurs from outside who have the capacity to invest. It has been seen that entrepreneurs from developed areas have normally gravitated towards these backward areas, which are contiguous to developed business centers with a view to availing themselves of the incentives and concessions. But such enterprises have not created any economic impact on the people of the backward areas except, perhaps, creating some negligible employment avenues.

It, is therefore, very important to ensure that the infrastructure facilities created to pave the way for nucleus industries are extended to cover vast multitude of small artisans or farmers whose products can be processed in the nucleus industries. “An integrated infrastructural programme geared to the needs of small-holder farms and small-scale enterprises is the best means of promoting both types of productive activity”. (J. Muller: Promotion of the Manufacture of Rural Implements in the United Republic of Tanzania). For example, if there are a number of small dairy farmers, a central refrigeration plant can serve all the farmers in the area by an active network of communication. As a result, each farmers in the benefit of an assured market and an enhanced income.

If a large number of farmers are producing soyabean, a central Soya oil processing unit would serve as ideal nucleus plant. Such a step would not only integrate agricultural development with industrial development, it would also bring about a pervasive growth of both. On the other hand its ancillaries would also bring about a pervasive growth of both. On the other hand, if a unit manufacturing some sophisticated machinery is the nucleus plant, its ancillaries would also need the precision or sophistication which will not be possible to achieve its in the capabilities of the target-beneficiary group whom we ant to develop through the development of backward areas. “As Paul Streeten has said, “Industry should produce consumer goods required by the people, the majority of whom live in the countryside, hose and simple power-tillers and bicycles, not air conditioners or expensive cars and equipment’s.

Much of the recent criticism of inefficient, high cost industrialization behind high walls of protection and quantitative restriction should be directed at the types of product

and technique which cater for a highly unequal income distribution and reflect entrenched vested interests” (Paul Streeten: “Industrialization in a United Development Strategy,” *World Development*, January, 1975). Actually the production of simple goods depends on the character and potential of a particular backward areas; and the essential infrastructure so development that it would be capable of sustaining active linkages between the subsidiary units in the villages and the central unit.

Environmental Analysis

This integrated approach, which is the key to the development of backward areas, implies a very careful environment analysis or research study of the target groups of beneficiaries; their activities can be linked with the covering enterprise. Unless these studies are made meticulously, the entire planning will only give unproductive results. Most of the development schemes fail to benefit the target clientele because elaborate linkages are not identified and built up. An imaginative study should

1. Identify the beneficiaries or target group
2. Analyse the environment for immediate feasible enterprises in an integrated manner;
3. Delineate the linkage and institutional arrangement;
4. Recommend appropriate organizational structures to provide necessary promotional support.

Unfortunately, in most of the studies on backward areas, there is a tendency to make generalization and ignore the details of really feasible project. As a result, immediate perception of concrete opportunities by interested entrepreneurs is left in confusion. Sometimes “Area Studies” make a general statement of demand and resources and recommend certain enterprises, which are not immediately feasible due to important reasons unaccounted for in such studies. It is also not seriously contemplated whether the recommended enterprises are feasible within the capabilities and investment capacity of the target-group. In short, most of the studies fail to discern the real issues of growth in the target area and fail to identify the concrete and specific needs of these endowments like resource, skill etc. to flourish enunciation of general objectives and generic beneficiaries tend to blur the distinct contours of one homogeneous group from the other.

Also, the extension of certain standard facilities or services does not serve their actual needs. All this possibly happens because in such basic studies, we fail to identify clearly the target-group and their specific problems, and make theoretical studies on resources and demand in an impersonal manner, as a result of which even the schemes devised on the basis of such studies tend to become too impersonal and rigid.

Sometimes, the schemes become so inflexible on account of a standardized petrified approach

that in some most genuine cases demanding a certain departure from the fixed framework, the scheme is incapable of giving requisite help. It is, therefore, absolutely necessary that any action plan for a backward area must first identify the target-group, identify the specific services they need for monitoring their enterprises and devise an appropriate, structural support for comprehensive coverage of their needs.

“The characteristics of entrepreneurship are knowledge, vision, meticulous planning, drive, dynamism, hard work, gambler’s instinct and may be, a certain degree of ruthlessness for achieving results as per the plan.”