

# 1

# Entrepreneurship



This chapter discusses the following facts.

- 1.1 The Concept of Entrepreneurship
- 1.2 Entrepreneur
- 1.3 Specific Importance of Entrepreneurship
- 1.4 Characteristics of Entrepreneurship

## 1.1 Concept of Entrepreneurship

Entrepreneurship can be explained as the manner in which people see, think, and act rationally about different incidents in the environment. Entrepreneurship is a practical concept. Therefore, it is somewhat difficult to describe in words. It has a long history similar to the origin of mankind.

Read the following story well to understand the concept of entrepreneurship.

### *The Story of Sunimal*

*My dear sons and daughters, Earlier I have related the stories of the heroes who lived in the past. But today I'm going to relate you a story of a hero who still lives. His name is Sunimal. He was one of my students in this school and a good child like you. He was very talented in his studies. But he always thought differently to that of others. He always questioned about what he saw and about things that took place.*

*One day I questioned all the children about their ambition. Even though other children mentioned several lucrative jobs, Sunimal said some thing different. " I can't say that exactly now, teacher. I will do something different to that of others " said Sunimal. In one particular year, each class made vesak lanterns. Sunimal made a beautiful lantern using coconut husks. Next year, he made a small vesak pandal which consumes less electricity using electric bulbs. Another day, he made a rotating machine to remove cobwebs using batteries, wire, pipes and a motor.*

*One day his mother said " Sunimal is very lazy to do home work. But his room is fully loaded with wires and parts of old radios and T.Vs. He assembles and re fixes them" I told his mother" he got sufficient marks for the subjects at school and he would come to a good position. "*

*Later, he made a machine using a motor for digging the earth and a machine to mow grass. Later on, he left this school and joined another to do his Advanced Level Examination. Do you know his present position? He is non other than the owner of " Shakthi Builders" over there. Now he is 30 years old. Above fifty employees work under him in his business. He has already won the local market. He leads a decent life serving his school and the society. He who tried to create different things at school, has gained an advanced technological competency even to produce backhoe machines, mowers and tree cutting machines. He has made his teachers and parents proud. Isn't he a hero of our time? "*

You might have heard similar stories like this through print media. Furthermore, you might have seen or heard about such personalities on electronic media like television.

**Let's try to understand the following characteristics of entrepreneurship from the character of Sunimal.**

- \* Try to make a change while being vigilant on the current things
- \* Possess a hopeful future dream
- \* Try to initiate new ideas and concepts
- \* Continue to work on such initiatives
- \* Lay a firm foundation for a successful business
- \* Lead a decent life while contributing positively for the betterment of the society

If we summarize the above characteristics, Sunimal can be identified as an exemplary entrepreneur.

Experts and researchers have expressed various ideas and concepts on entrepreneurship.

Accordingly, entrepreneurship is,

- \* A mentality that motivates people to change the future
- \* It is a way of logical thinking and acting
- \* It is a collection of attitudes, behaviours and skills of persons
- \* It is related to human mind (A mentality)
- \* It can be an inborn thing and something that can be made and developed through education and experience as well.

**Entrepreneurship is a collection of feelings related to human mind (mentality) and act or behave accordingly. It is to think differently. It is to create innovations identifying the opportunities in the environment. It is to take risks.**



Do the following activity to confirm what you have learnt so far about entrepreneurship.



### Activity 01

Read the following statements that describe entrepreneurship and mark (✓) or (×) against each statement in the given box.

Serial No	Statement	Answer
01	It's a mentality related to a person	
02	A personality trait	
03	A valuable idea	
04	It's an inborn quality	
05	A way of thinking and acting	
06	A thought which causes change	
07	It's related only to knowledge	
08	It's seen in the behaviour of people	

Let's focus more on the concept of entrepreneurship in a business point of view.

Entrepreneurship is the ability to identify a suitable business idea and convert it into a practicable business enterprise. Creativity, innovation and ability to take risks are important factors in the course of changing a business idea into a business. In this process, there may be success or failure in the business. Simply it can be identified as a risk. When an idea is put into practice, it is important to act according to a plan with objectives. What ever challenges or pitfalls there are in achieving objectives, the efforts should not be given up. You may confront obstacles and difficulties in achieving objectives, but the effort should never be given up.

## 1.2 Entrepreneur

The person who is engaged in entrepreneurial activities is an entrepreneur. He is a person who makes considerable changes to bring about an economic and social transformation by planning to transform ideas into actions and taking correct decisions. He produces new goods and services, new processes and businesses as a result of processing resources required to start and develop a new business.

## 1.3 Specific Importance of Entrepreneurship

You have collected a lot of information on entrepreneurship by now. You have learnt that the ability of a person to convert ideas into activities is known as entrepreneurship. Such ideas are developed as innovations by entrepreneurs. Their ideas are creative. Innovations refer to the activity of producing new goods and services. Various resources are required to produce goods and services.

**These resources are divided into 4 main factors of production as follows.**

- Land
- Labour
- Capital
- Entrepreneurship

Let's study each factor of production in brief.

All the natural resources including the raw materials required for production are known as land.

*Example :-*

Raw materials, land,  
forests and soil

The physical and psychological energy used for production is known as labour.

*Example :-*

The labour of an engineer  
The labour of a carpenter  
engaged in the production  
of furniture

All the man made resources required for the production are called capital.

*Example :-*

Buildings  
Machines  
Equipment



Figure 1.1

A production does not take place only with the factors like land, labour and capital. Therefore, the entrepreneurship is required to produce goods and services and to market them by blending these factors according to the requirement. The decision maker is the entrepreneur. He makes the decisions, on the type of goods and services to be produced, the amount and how the production factors are to be blended etc.

Thus, when compared with other factors of production, you can understand the specific importance of entrepreneurship.

Entrepreneurs are essential to convert resources into goods and services that are required to fulfil human needs.



### Activity 02

State whether the following statements are true or false.

Statement	True / False
1. Entrepreneurship is a dynamic process.	.....
2. The ability of a person to change an idea into action is called entrepreneurship.	.....
3. Entrepreneurship is a skill which the people acquire when they become adults.	.....
4. Some of the characteristics of entrepreneurship are creativity, being innovative and taking risks.	.....
5. Entrepreneur is a person who makes a considerable change in the economy.	.....
6. Entrepreneur is a person who takes risks.	.....
7. Factors of production are directed by the entrepreneur.	.....
8. The subject of entrepreneurship can be learnt like mathematics, science and languages.	.....
9. Every one can become an entrepreneur.	.....

## 1.4 Characteristics of entrepreneurship

Think of nests built by creative weaver birds. They build them with utmost care as talented entrepreneurs.

An entrepreneur displays various characteristics when he converts his ideas into actions.

Some of their characteristics are mentioned below.



Figure 1.2

01. Creativity
02. Innovations
03. Taking risks
04. Future vision
05. Sensitivity towards the environment and identifying opportunities
06. Being optimistic
07. Possesses the confidence that success depends on his own ability
08. Tendency towards achieving difficult objectives
09. Independence
10. Flexibility

### 01. Creativity

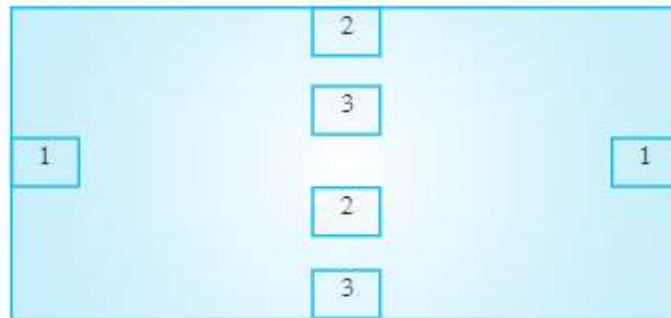
Although every one possesses thinking power, a very few would use it. Every one is creative.

Do the following exercise to assess your creativity.

You have to :-

- \* Draw lines joining the equal numbers without the lines being intersected each other.
- \* Use only three lines
- \* Draw lines without intersecting the squares with numbers
- \* Draw lines only within the frame

in the following diagram



If you are creative, you may have completed it easily. But for some who do this exercise by

- \* Joining 1 boxes first.
- \* Being very hasty
- \* Thinking it's impossible.

Creativity may be subsided.

Let's see what creativity means

Creativity can be defined as the ability to develop new ideas and discover new ways to solve problems and issues using available opportunities.



Figure 1.3

Look at your environment carefully. How many issues and opportunities are there for you?

*Example :-*

There are issues such as heaviness of the school bag, uncomfortable chairs, taking the breakfast, rain, mosquitoes. There is a solution too, for every issue. They are solutions which come to your mind. If you put those ideas into practice, you can create new products.



Study the issue and the solution below.



### Activity 03

There may be a lot of issues in your area and in your school environment. Identify several such issues and find solutions for them. Use the following table.

Issue	Solution
1. Heap of waste	Produce compost or bio-gas
2.	
3.	
4.	

## Factors that obstruct creativity

You will have to face various barriers when finding solutions in a creative manner. Several such barriers are shown below.

- i. Relying firmly on beliefs and attitudes
- ii. Thinking that there is only one solution for a particular issue
- iii. Anticipating instant results
- iv. Not acting on logical basis
- v. Thinking that there are barriers to be practical
- vi. Following rules, regulations and traditions ignorantly
- vii. Fear of mistakes and criticisms

Let us examine the barriers mentioned above in brief.

### i. Relying firmly on beliefs and attitudes

Most of the people rely too much on their beliefs and try to take decisions on what they say and do. They think negatively before doing something and fear that it is impossible to complete the task.

*Example :-*

Believing that it is impossible for women to do certain jobs.

### ii. Thinking that there is only one solution.

Some people have the habit of thinking that there is only one solution for any issue. Actually, it is difficult to find an issue which has only one solution.

*Example :-*

There are various solutions for preventing the inconveniences caused by mosquitoes.

### iii. Anticipating instant results.

Some anticipate instant results for what they do. But the result of creativity may take a long time than expected. The seed of ideas originates in the minds of people and takes time to grow in to a strong tree.

*Example :-*

It took a long time to succeed the journey to the moon

#### **iv. Not acting on logical basis**

It is a barrier to creativity when people try to find solution on traditions. A lot of new products can be created with logical thinking.

*Example :-*

In the past, it was assumed that going to the bank for transactions was compulsory but it is not so today.

#### **v. Thinking that there are barriers to be practical**

Some people tend to think that certain things are not practical and they are discouraged to proceed, because of this.

*Example :-*

Airplanes were invented by abandoning the concept that it was not possible to fly any object which is heavier than the wind.

#### **vi. Following rules, regulations and traditions ignorantly**

There are various norms and traditions in the society. Some people misunderstand such norms and traditions and form their own limits. This is a barrier to the creativity of people.

*Example :-*

Take three meals a day  
Sleep at night  
Keep the shops open only during the day time

#### **vii. Fear of mistakes and criticism**

The creative ideas of the entrepreneurs have succeeded not by implementing them in haste.

There are lots of mistakes, failures and criticisms behind the success of the entrepreneurs. The entrepreneurs consider failures as experiences.

*Example :-*

If Thomas Alva Edison had feared the mistakes and criticisms, we will not be able to see the electric bulb which had failed 999 times.

## Improving the creativity

We can improve creativity by minimizing the effects if we can identify the barriers. Furthermore, some ways to improve the creativity of people are given below.

### i. Absorbing diversity

Showing an interest to think, see and act differently. Diversity occurs due to the changes in the environment.

### ii. Accepting failures

The result of creativity may be a success or a failure. But you must have the ability to accept the failures. Furthermore you must not be in a hurry to achieve the results.

### iii. Encouraging curiosity

Curiosity is the main cause of new discoveries. People make new inventions and creations based on curiosity.

### iv. Perceiving issues as challenges

Every issue provides an opportunity for an innovation. Therefore, you must be strong to confront the issues and consider them as challenges.

### v. Creative training opportunities

Education and training help to improve creativity of people.

### vi. Appreciation of creativity

Creativity of people can be encouraged through financial rewards, appreciation and felicitations.



Figure 1.5 - Sweet melon that has undergone creativity

### vii. Creative behaviours as a model

Creative behaviour and activities of successful entrepreneurs can be taken as examples to develop which an interest on creativity.



#### Activity 04

Write the uses of the following items as much as possible and compare them with the answers of your friends.

Items	Uses
A large gravel stone	
Broken branch of a tree	
A page of a newspaper	
A brick	
A dump of garbage	
A pin	

## 02. Innovation

All the goods and services we consume other than those provided by nature are innovations produced by a person or an organization. The ability to produce or develop a new product or a service is simply known as innovation. A creative idea is the origin of innovation. Thus, the transformation of creative ideas into useful purpose is done by innovation.

Innovation is a very special characteristic of an entrepreneur. The creative ideas of an entrepreneur are converted into a marketable good or a service as a solution to problems and opportunities.



### Activity 05

Try to understand how waste materials are transformed into new products from the following picture. Write the appropriate activity in the blank cage.



## **Methods of innovation**

### **i. A new invention**

Creating a new product or a service which did not exist before.

- Airoplane
- Telephone
- Digital Camera
- Electric bulb
- E - Business

### **ii. Extension of a core product**

This is to add a new usage to an existing product , service or process.

- Electric train
- Smart phones
- Non fat milk
- Cooked food
- Self service marketing
- E - pay system

### **iii. Duplicating**

Creating a new product which is similar to an existing concept.

- Distribution of bakery items like the mobile distribution of ice - cream.

### **iv. Combination**

Using a new combination or mixture of existing concepts or factors to produce a new item.

- Make a vesak pandal using LED electric bulbs.
- Bakery items produced using rice flour.

## **Basic sources of innovation**

Basic sources of innovation and related examples are mentioned below.

### **i. Unexpected events**

Goods and services, produced unexpectedly without a prior plan.

- Gramophone
- Penicillin

## **ii. Process requirements**

Changing the existing process to meet the demand arisen due to some necessity.

- Assembly line production due to large scale demand
- Formation of bakeries with electric equipment due to fall in supply of firewood

## **iii. Changes in the market**

Change of goods, services and processes due to changes in the attitude of the consumers, technology and increase of income.

- Visiting home to treat patients
- E banking
- Sugarless and non fat food

## **iv. Changes in the demography and lifestyle**

Change of age, job, education and domicile.

- Day care centre
- Elders home
- Distant degree programmes through internet.

## **v. Change of perception or understanding**

Change of interpretation of things, detail and concepts by persons

- Health care centres
- Preference towards beauty culture productions

## **vi. Concepts based on knowledge**

Creation of new goods and services through experiments and testings

- Mobile phones with various facilities
- Computer hardware
- Robot machines





### Activity 05

Sanoma Hotel is situated in a main city. It supplies high quality food and drinks required by hotels and restaurants. Often it is full of customers. Everyday, there is a long queue in the evening to buy food. As the discharge of left overs and waste water is harmful to the environment, a bio gas unit has been produced. It provides the necessary electricity to the hotel. Therefore the owner can earn a good profit by selling the goods and services at a reasonable price.

- (1) Read the above description well and state the creative idea and innovation of the owner of the hotel.
- (2) What are the benefits obtained by the entrepreneur?
- (3) List 10 new goods and services you know.



### Activity 06

Write 05 examples of ways by which new products can be created.

## 03. Taking risks

There is a risk when an entrepreneur creates a new product. The new product may succeed or fail in the market. There is a similar risk when a new business is started. There is a probability of success or failure of the business. It is a financial risk. We can't exactly say whether we would get a sufficient profit for the money invested in the business. The main reason for the risk is uncertainty.

#### *Example :-*

You will get the money and the interest for the cash deposited in a bank which is approved by the Central Bank. But if you invest your money in a place which cannot be trusted, you may not even get the money that you have invested.

The relationship between the risk and the profit can be shown as follows.

*High risks High profit*  
*Low risks low profit*

Entrepreneurs do not like to take high risks expecting a high profit as the gamblers do. At the same time entrepreneurs would not like to get a low profit by not taking a risk. Here the entrepreneurs evaluate the risk and take only the bearable risk.

#### 04. Future vision

Future vision is the dream that is expected to be realized in the future. It is important that we all have a vision. As a student you should have a vision too. Try to remember the story of Sunimal which you have already studied. His vision was to do something different. Accordingly, by forming different objectives and goals, you can achieve success in the future.



Figure 1.6

An entrepreneur is a person who always tries to make a change with a creative mind. At present, he would see his future position and the nature of the business. His vision is to make a positive change in the society through his own success and the success of his business.

All the activities are directed on the basis of the vision of the individual and the business.

#### 05. Sensitivity towards the environment and identifying opportunities.

Entrepreneurs are always mindful of their environment. Therefore they are aware of the changes in the environment and able to respond to them, appropriately.

*Example :-*

Women are employed in various jobs. Identifying the business opportunities that have been created due to their busy life.

## 06. Being optimistic

An entrepreneur thinks and does everything with a positive attitude. He always thinks positively. He is not backward and does not have a negative mind at all. He sees a pleasant dream about the future. He accepts unsuccessful failures and challenges in a positive way. Many people would see this as half empty but the one who thinks positively sees it as half full.



Figure 1.7

## 07. Possess the confidence that success depends on his own ability.

An entrepreneur works with self confidence. He would not wait until luck comes to him but believes thoroughly that his hardwork brings him success. He has the prior preparation to face any type of challenge. He believes that his successes and failures entirely depend on his amount of commitment. He believes that his destiny rests on him. He would not assign his success and failures to any unseen power.

Air pilot Jessica Cock can be sighted as a recent example. She says,

*" I was born handless. But having no regret about that, I concentrated to learn what I could do with my two legs. I involved with commitment in training of piloting aeroplanes. At the end, I was successful in achieving my aim of becoming a pilot "*



Figure 1.8 - Jessica Cock

## 08. Tendency towards achieving difficult objectives

An entrepreneur would work realistically to achieve his objectives. His objectives are clear. He would act directly to achieve his objectives. He wouldn't be disappointed on his failures or shortcomings. He would not be sad. There may be failures, pitfalls, drawbacks and sadness behind the success of any entrepreneur. It is a special quality of an entrepreneur because he accepts it as normal and takes as experience and acts with interest to achieve any difficult objective.

Read the statement of the famous scientist Thomas Alva Edison. Realize how entrepreneurs act to achieve difficult objectives.

*"I have not failed. But I've found 999 ways that a light bulb will not work"*

*Thomas A. Edison*

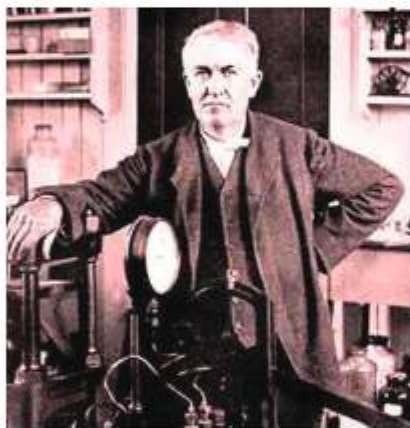


Figure 1.9

*"I have not failed,  
I've just found 999  
ways that a light bulb will not  
work"*

Thomas A. Edison.

## 09. Independent

An entrepreneur is a person with self control. He always likes to have an independent opinion. He prefers to be his own master. An entrepreneur expects to work on his own and takes decisions. He respects the opinions of others but when it comes to taking decisions, he does not rely on others. He has the ability to decide and control his own destination.

## 10. Flexibility

This means the ability to adapt to the environmental changes. Entrepreneurs are ready to adapt to the environmental changes. He adjusts his path according to the changes in the environment.

You may have seen some people who follow strict policies. They don't like to change their decisions, manners, opinions and perceptions. Some still live in the past. They fail to face the upcoming challenges forgetting what had happened in the past.

If entrepreneurs act strictly in this manner, they would not be able to accomplish the success in an environment which changes every minute.



Figure 1.10

### *Example :-*

Introduction of innovations such as self service sales outlets, internet business, E-payment systems to facilitate the customers who want to fulfil their tasks efficiently without wasting time in queues.

Earlier you studied the basic characteristics of the entrepreneurs. There are common characteristics in entrepreneurs. Some of them are stated below.

- \* Dedication
- \* Common sense
- \* Self motivation
- \* Self confidence
- \* Seeking information
- \* Strong desire

## **Dedication**

Entrepreneurs do their work with utmost dedication. He has the ability to work to achieve their objectives by putting their personal need aside.

## **Common sense**

Common sense is the ability to understand instantly the effects of the environmental changes. He uses this ability to make his business a success.



Figure 1.11

## **Self motivated**

Entrepreneurs do not need others to persuade them to fulfill their tasks. He is a self motivated person and achieves his objectives through his successes and failures.

## **Self confidence**

Entrepreneur has a great confidence regarding what he does. He carries out his tasks realizing the distance he could go and the capabilities he possesses. Therefore, he performs his duties with confidence selecting the correct path to turn his actions towards achieving the required goals. He believes in himself. He considers himself as his own master and identifies his strengths and weaknesses.

## **Seeking information**

Entrepreneur is always vigilant about the new trends and changes in his own business as well in the industry. He uses such information for the improvement of his business. He needs a good network for this purpose.

## **Strong desire**

Every entrepreneur has a strong desire to achieve his objectives. He works very hard to achieve this desire.



#### Activity 04

The following is an extract from an interview held during a T.V. programme called "People with great talents" in which Samith Divarathna was interviewed by the presenter Sasini Disanayake.

Sasini :- Samith, "You are a man of greater courage." If you look back the path you trod so far?

Samith :- My native place is Padiyapalalle. I used to spend my leisure time in a useful way from my childhood. Even though I was rearing ornamental fish as my hobby, neighbours used to buy fish from me. I bought more ornamental fish from the income I received and produced more and more fish. I made fish tanks too.

Sasini :- About your education?

Samith :- After I passed the G. C. E. Advanced Level examination, I worked in a private firm. At the same time I thought of expanding the business. I bought ornamental fish in bulk from breeding centres. I followed a course in aqua culture to improve my knowledge. That course of study helped me a lot to expand my business.

Sasini :- If you say something about your business ?

Samith :- In the meantime, I had to change my residence to southern region to which I got a transfer. I realized that there was a good demand for ornamental fish in the area. But there is no suitable business places available in the area. There was a high demand for ornamental fish tanks. So I started selling fish tanks with ornamental fish in a building rented in the city. That is how "Ruhunu Aquariums" was formed.

Sasini :- It is a good example for the new generation. Who else helped you apart from your parents and sisters in this endeavour?

Samith :- I received knowledge and financial assistance from various government institutions.

Sasini :- You are involved in another business while working. How do you find time for this.?

Samith :- I am not a lazy person . My employees also work very hard with dedication. After work I help in the household work and involve in production activities during my spare time. All this is done according to my own plan.

Sasini :- As a person who conquered life and lot of challenges can you tell us about your plan for the future?

*Samith :- There is a high demand for ornamental fish in the international market. I have a plan to expand the business and supply ornamental fish to the international market.*

*Another business opportunity in our city is non availability of glass ware sales outlet for construction purposes. I have an idea to fulfill this.*

*I have an idea to develop a part of my business as an ornamental aquarium centre.*

Study the above extract and state the characteristics of entrepreneurship which can be identified from the conversation of Mr. Samith Divarathna state how you identified them.

### Let us write answers.



01. Explain the " entrepreneurship" in brief.
02. Name the suitable characteristic for each of the statements given below.
  - The ability to develop new idea as solutions for issues and opportunities.
  - The ability to convert a creative ideas of people into a useful purpose.
  - The ability to adapt to the changes in the environment.
03. The entrepreneur is always concerned about risks and profit. Show the relationship between the risk and the profit.
04. Name three basic elements of innovation.
05. Name 6 characteristics of an entrepreneur.
06. Name two ways by which the creativity of entrepreneurs can be further improved.
07. Explain the relationship between creativity and innovation.



## 2

## The mutual relationship between entrepreneurship and businesses



This chapter discusses the following facts.

- 2.1 Introduction of business and businessman
- 2.2 Needs and wants
- 2.3 Characteristics of businesses
- 2.4 Similarities of a businessman and an entrepreneur
- 2.5 Differences between a businessman and an entrepreneur
- 2.6 Types of entrepreneurs
  - Business entrepreneurs
  - Social entrepreneurs
  - Internal entrepreneurs



### Activity 01

You can check your knowledge on entrepreneurship and business by answering the following checklist. Mark " ✓ " in the columns given below as "agree" "do not agree" or " not sure".

Serial No.	Statement	Agree	Do not agree	Not sure
1	There is a risk in involving in business activities.			
2	Employees in organisations too can carry out their activities as entrepreneurs.			
3	Human needs are fulfilled through innovations created by entrepreneurs.			
4	Human needs are fulfilled by the consumption of goods and services.			
5	Business people can also be considered as entrepreneurs.			
6	Business activities are carried out with a profit motive.			
7	A feature of business is transactions.			
8	We can do business activities even without a profit motive.			
9	Function of a business is to sell goods and services produced by entrepreneurs.			
10	Businesses do not provide services free of charge.			

Check whether your answers are correct or incorrect after studying this chapter.

## 2.1 Introduction of business and businessman

It is not necessary to explain about businesses. That is because we deal with businesses all the time. Think of goods and services we consume to fulfill our day to day needs and wants in the following contexts.

*Example :-*

- Wash yourself in the morning
- Have a cup of tea
- Prepare daily meals
- Watch television
- Get ready to go to school or to work

We need to consume a variety of goods and services for the above activities. Think about the complexity of processes from producing goods and services by different institutions and people to fulfil human needs. All the production and distribution of goods and services are done by businesses. Now we can identify what businesses are.

**Business refers to all the activities related to production and distribution of goods and services to fulfil human needs and wants. The people who carry out these activities are called businessmen.**

## 2.2 Needs and Wants

The basic things which are essential in order to live are known as needs. The various ways by which the needs are fulfilled are called wants. Each want is created on a need. Accordingly, needs are fulfilled by satisfying wants.

## Differences between needs and wants

Needs	Wants
Basically required	Arise after the needs.
Limited	There are lots of wants to fulfill one particular need.
Common to all	Vary according to the personality of each person.
Occur with birth	Entrepreneurs and businessmen create wants according to the requirements of people.

You need to understand the goods and services related to the needs and wants which you have already learnt. Anything which fulfills human needs and wants is called goods and services.

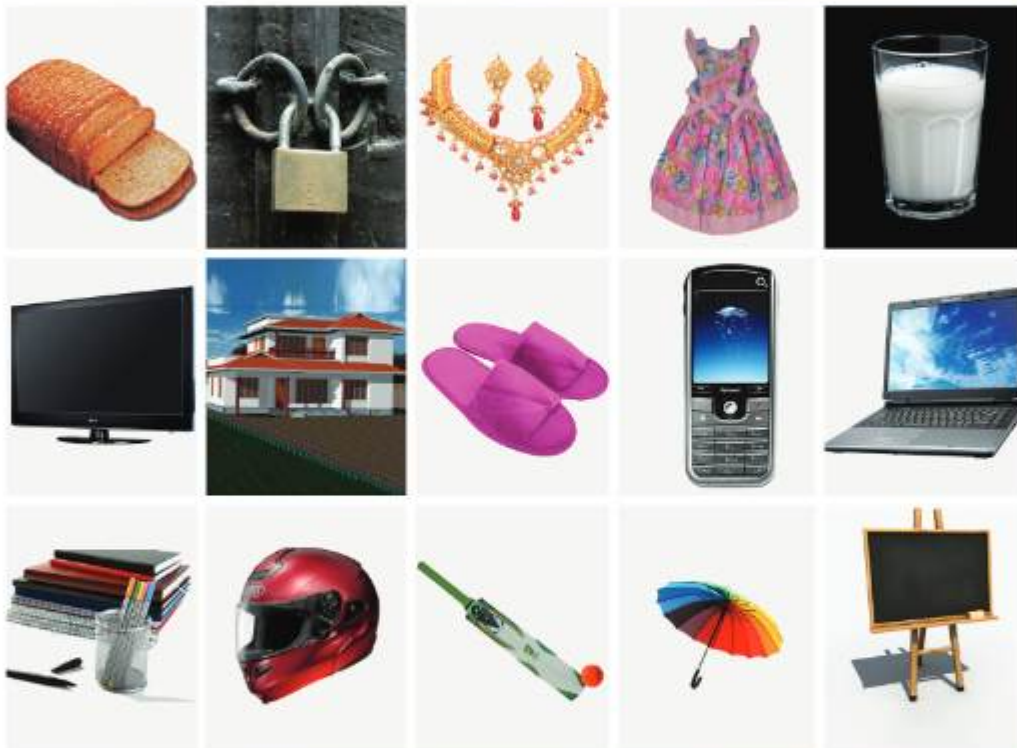
Identify some specific characteristics of goods and services by studying the following table.

Goods	Services
Tangible and exist physically	Intangible and do not exist physically.
Storable	Non-storable
Can preserve the homogeneity.	Cannot preserve homogeneity. Differ according to the supplier and the context.
Consumer is not essential for the production process.	Most of the time, consumer is a part of the production process.
Can separate from the supplier	Cannot separate from the supplier.



### Activity 02

Observe the following pictures.



Complete the following table using the above pictures. An example is given to you.

Need	Items which can fulfil the need.(some needs can be fulfilled even by one item.)
1 Food	a loaf of bread, a glass of milk
2 House	.....
3 Dress	.....
4 Security	.....
5 Education	.....
6 Leisure	.....
7 Communication	.....

## 2.3 Characteristics of business

Let us examine some features of businesses to improve your knowledge on businesses.

Characteristics		Explanation
Carry out the transactions using resources	➔	Every business involves in the activity of production or purchase and sale of goods and services.
Continuous transactions	➔	Transactions in a business never end with one or few but continue.
There is an objective	➔	There are businesses with profit motive and non profit motive as well.
There is a risk	➔	There may be a profit as well as a loss in business activities. Businesses will have to face these uncertainties.
Transactions are based on price	➔	The value is expressed in terms of price when buying and selling of goods.
An economic activity	➔	This is considered as an economic activity because limited resources are used for the production of goods and services, and transactions are carried out based on price.

## 2.4 Similarities of a businessman and an entrepreneur

Business activities are carried out by both businessmen and entrepreneurs. Following similarities exist between them.



Figure 2.1

- Carry out an economic activity
- Face a risk
- Carryout transactions
- Use resources
- Make decisions on production, purchasing and selling of goods and services
- Face competition.
- Think of survival
- Self motivation



Figure 2.2

## 2.5 Differences between a businessman and an entrepreneur

All businessmen are not entrepreneurs. Likewise all entrepreneurs are not businessmen. Study the following venn diagram.

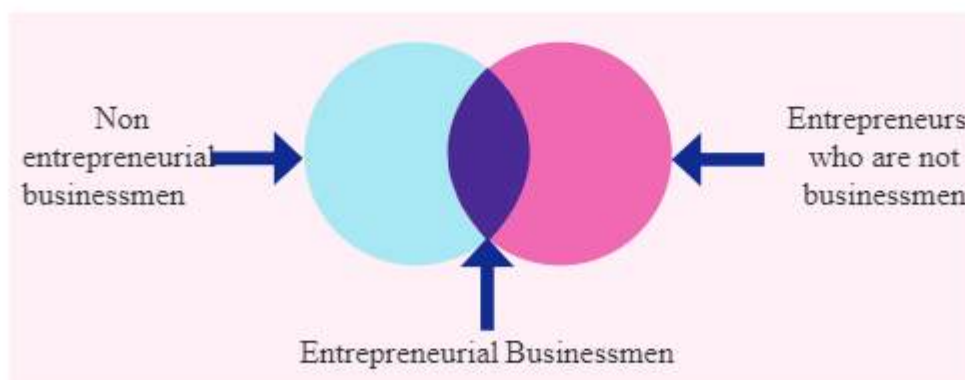


Figure 2.3

How an entrepreneur and a businessman differ from each other is presented below. Try to understand the different characteristics clearly.

Businessman	Entrepreneur
<p>Carries out business activities in a traditional and conventional method.</p> <p><i>Example :-</i> Most of the traditional retail shops</p>	<p>Carries out business activities based on new products and considering the realities and changes in the environment.</p> <p><i>Example :-</i> Super markets</p>
<p>Doesn't like to face or take risks.</p> <p><i>Example :-</i> Doesn't like to extend the business</p>	<p>Accepts risks which can be bearable after a careful calculation of risks.</p> <p><i>Example :-</i> Extends the business through new investments, enters new markets</p>
<p>Doesn't like to face competition.</p> <p><i>Example :-</i> Doesn't like opening new business by other people Scared of imported items</p>	<p>Seeks for competition.</p> <p><i>Example :-</i> Takes competition as a challenge</p>
<p>Doesn't take maximum advantage from existing resources.</p> <p><i>Example :-</i> Minimum use of buildings, motor vehicles, tools and equipments and raw materials</p>	<p>Takes maximum use of the existing resources, as per required.</p> <p><i>Example :-</i> Maximum use of available resources Creates by-products from waste</p>



<p>Tries to solve problems in a conventional way.</p> <p><i>Example :-</i> Sells goods when customers come Sells only the goods and services which are available at the moment</p>	<p>Solves problems creatively.</p> <p><i>Example :-</i> Finds customers and sells goods at their doorstep. Produces goods and services suitable for the hidden requirements of customers</p>
<p>Setting short term objectives.</p> <p><i>Example :-</i> Tries to sell goods some way or the other to earn a quick profit</p>	<p>Setting long term and visionary objectives.</p> <p><i>Example :-</i> Long term survival in the market tries to bring the customers back to the business</p>
<p>Be Satisfied by keeping the business in the same way.</p> <p><i>Example :-</i> Pavement business Traditional retail business</p>	<p>Extends the business day by day, is not satisfied of the present position.</p> <p><i>Example :-</i> Looks for new markets and becomes an exporter</p>

As a whole, according to the information given above, entrepreneurs have more ability than a businessman or a trader to become more successful.

## 2.6 Types of entrepreneurs

We can identify three types of entrepreneurs.

### Business Entrepreneurs

These are the traders or businessmen who involve in business activities with the motives of earning profits.

*Example :-*  
Retail trading businessman

## Social Entrepreneurs

Social entrepreneurs are those who submit or show creative solutions for social problems.

Today, the society faces a lot of problems. Spread of epidemic diseases, problems of nutrition, problems of illiteracy, use of drugs, and poverty are some of them. People who endeavour to solve these problems creatively are known as social entrepreneurs.

*Example :-*

Grameen loan system  
Introduction of activities related to eradication of epidemic diseases.

Social entrepreneurs attempt to transform the society by proposing various solutions to these social issues. These can be seen implemented provincially, nationally and internationally. There are number of world famous entrepreneurs.

*Example :-*

Mahatma Gandhi, Marie Curie, Prof. Mohomad Yoonus.

Nationally, we have a number of popular social entrepreneurs.

*Example :-*

Dr. C.W.W. Kannangara

## Internal (institutional) Entrepreneurs

A recent attention has been focused on the type of people called internal entrepreneurs. These entrepreneurs can be seen among the existing employees in the business.

Internal entrepreneurs are those who hold top level jobs within the business with entrepreneurial skills. These people make changes on their own as examples to others.

*Example :-*

Heads of government institutions who have won awards for quality.  
Principals of schools who have won awards for productivity.



### Activity 03

State some of your needs and various ways by which you fulfil those needs.

Needs	Goods/ Services you use	The way it is fulfilled



### Activity 04

What type of an entrepreneur would you like to become in the future? Explain with reasons.

1. Business entrepreneur
2. Social entrepreneur
3. Internal entrepreneur



### Activity 05

List out the businesses with businesses and entrepreneurial characteristics in your environment.

### Let us write answers.



01. Define needs and wants.
02. How do goods differ from services?
03. Write 03 differences between needs and wants.
04. Write 05 characteristics of businesses.
05. Compare and contrast a businessman and an entrepreneur.
06. Name 03 types of entrepreneurs and give two examples for each type.

# 3

## The Benefits of Entrepreneurship



This chapter discusses the following facts.

- 3.1 Benefits of entrepreneurship to the entrepreneur
- 3.2 Benefits of entrepreneurship to the national economy

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## The Benefits of Entrepreneurship

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An entrepreneur is a strange person. He uses his skills and brings various benefits to the society and to the country. Most countries have achieved the growth and development due to the benefits of entrepreneurship. Accordingly entrepreneurship brings various benefits to the entrepreneur, the region and to the country.

The benefits of entrepreneurship are of two types.

- \* Benefits to the entrepreneur
- \* Benefits to the national economy

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### 3.1 Benefits to the entrepreneur

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- \* Destiny rests upon his own self
- \* Diversity in activities
- \* Ability to contribute to the welfare of the society
- \* Ability to use unused talents
- \* Ability to earn an attractive profit
- \* Self sufficiency
- \* maximum opportunity for self development of people
- \* Independence and achievement of maximum satisfaction

let's examine each of the above in detail.

#### **Destiny rests upon his own self**

Entrepreneur is an active person who plans his activities, works hard and takes his own decisions to develop his business. He believes that he must take his own decisions regarding his actions while respecting the opinions of others. He believes thoroughly that he is his own master. Therefore, it is declared that the destiny of the entrepreneur is decided by the entrepreneur himself. Success or failure of his business depends on his amount of dedication. Social benefits would be automatically obtained when a business becomes highly succeeded

*Example :-*

- Social recognition
- Obtain leadership
- Obtain praise and popularity

## **Diversity in activities**

An entrepreneur performs the roles of a leader, an owner and a manager. At the same time, he has to perform various tasks with these roles.

### *Example :-*

Supply resources necessary to the business as the owner

As a leader, he has to take decisions, and direct

As the manager, he has to plan and organize business activities.

Thus, it is clear that there is no specific task for an entrepreneur and he carries out the task with self motivation and interest. Success of most of the businesses was due to performing their tasks with happiness and interest.

## **Ability to contribute to the welfare of the society.**

An entrepreneur naturally involves in social welfare activities. It is an objective of entrepreneurs to do social welfare activities. He always tries to do charity and help others.

### *Example :-*

Provides employment opportunities

Provides shelter for those who have lost their homes

Provides scholarships to students

Conducts medical camps

Construction of buildings and supply equipments

Assists the welfare activities of the government

## **Ability to use unused talents**

Apart from the talents that could be seen in people, there are unused talents in people. People use their ordinary talents in day to day activities. But some do not get the opportunity to use their talents to the fullest. They cannot use their special talents as they are engaged in monotonous jobs.

### **Ability to earn an attractive profit**

A business must earn a sufficient profit for its survival in the market. Even the non-profit earning welfare organizations have to earn a profit for their day to day needs.

An entrepreneur earns a profit for him to lead a successful life, improve the standard of living of his employees and for the survival of his business.

### **Self Sufficiency**

The consumption level of a person is decided on his ability to purchase goods and services to fulfil his needs. When the ability to purchase decreases, the ability to fulfil the needs or the consumption level of a person is limited. But, as entrepreneurs have a high income, they can maintain a high consumption level.

### **Maximum opportunity for self development of people**

An entrepreneur is a person who achieves success with a proper plan and dedication. Sometimes some people achieve high growth within a short period while others achieve success in the long run with sheer dedication. The journey starts with one step and ends with thousand steps.

### **Independence and achieve maximum satisfaction**

We know that an entrepreneur thinks and acts independently. Even though he is involved in various activities, he acts with an independent mind, and he gets a higher satisfaction.

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## **3.2 Benefits to the national economy**

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### **Use of local resources**

Entrepreneur achieves his objectives through his environment. He generates his business opportunities using the unused resources in his environment.

### **Regional development**

As the entrepreneur invents and expands new products, his business environment develops.

This development contributes to make a progress in different facilities of the area.



### **Supply new goods and services to the market**

Entrepreneur always attempts to supply new or improved products and services than the existing products and services in the market.

### **Create employment opportunities**

Entrepreneur tries to introduce a new product or a service using his new ideas. He needs additional employees in order to make his ideas a reality. Therefore an entrepreneur is a creator of employment opportunities.

### **Ability to earn foreign exchange through the export of products.**

There is a demand for the products of the entrepreneurs in the international market because they always produce new products. Foreign exchange can be earned by this process.

### **Increase of total national production**

The entrepreneur is able to increase the amount of production in the economy as he creates new goods and services which fulfil human needs. As a result, the national production is increased.

### **Decrease of disparity in the distribution of income**

The Distribution of higher percentage of income among fewer people would be distributed among more people as the majority is involved in entrepreneurship.

### **Contribution to the development of the economy**

There is a great opportunity for the government to make its development projects a success through the money paid by entrepreneurs as tax. The economy of the country would develop because of the new innovations of entrepreneurs that create new products and business opportunities to decrease unemployment and improve the standard of living of the people. This would contribute to develop the total economy of the country.

### **Create a sovereign and independent nation**

Personal, social and economic development could be achieved through the development of entrepreneurship. Then, we should not depend on foreign countries. It would create a sovereign and independent economy and society which would create a peaceful country



### Activity 01

Identify an entrepreneur. As a result of being an entrepreneur,

- 1 Write the benefits he has obtained.
- 2 Identify the benefits to the national economy and the country.



### Activity 02

*Ravija Beraliyadda is a young lady who selected bio-science, after passing the Ordinary Level examination even though her parents asked her to select Arts stream. She is a dentist at a hospital in the town. She conducted a private dental clinic in a building hired for rent. Within a short period of time, she bought a plot of land from a main city and constructed a building. Later on, she shifted her dental clinic to this new location.*

*She took a great interest in the dental health care of school children and conducts dental health programmes to educate the parents. She was invited as the Chief Guest of the prize giving of the school and made arrangements to donate required instruments to the Dental Care Centre of the school. She also donated some of her novels to the school library.*

*Amidst her busy life, she fulfilled the duties of her family. She has bought a separate vehicle to transport children to school. This has made her work easy.*

Study the above story and fill the following grid.

Benefits	Explanation
Destiny rests upon his / her own self	
Diversity in activities	
Ability to contribute to the welfare of the society	
Ability to show the hidden talents	
Earn an attractive profit	
Self sufficient	
Maximum opportunity for self development of people	
Independence and achievement of maximum satisfaction	



### Activity 03

" Being an entrepreneur rather than an employee, brings more benefits " Conduct a debate by dividing the students in to 2 groups.

**Let us write answers.**



01. Write 5 benefits of entrepreneurship obtained by entrepreneurs.
02. Write 5 benefits obtained to the national economy.
03. Explain " Entrepreneurship helps to use talents of people to a maximum"
04. Explain " The entrepreneurs start new businesses utilizing local resources " using appropriate examples.
05. List 5 social benefits of entrepreneurship.

# 4

## Entrepreneurship and Small scale businesses



This chapter discusses the following facts.

- 4.1 Small scale businesses
- 4.2 Relationship between small scale businesses and entrepreneurship
- 4.3 Importance of small scale businesses for economic development
- 4.4 Strengths of small scale businesses
- 4.5 Limitations of small scale businesses
- 4.6 Reasons for the failure of small scale businesses
- 4.7 Actions to be taken for the success of small scale businesses
- 4.8 Roles of an entrepreneur
- 4.9 Skills to be developed by an entrepreneur

## 4.1 Small scale businesses

Now that you have completed Chapter three and reached Chapter four, we assume that you have gained a broad understanding about the concept of business. Businesses can be categorized under different bases. One such basis is the categorization of businesses according to their size. Here, three categories can be identified

- \* Small scale businesses
- \* Medium scale businesses
- \* Large scale businesses

Out of the three types of businesses given above, what is the type that you see most commonly in your area? You will observe that it is the small scale businesses. This shows that small scale businesses play an important role within the business economy.

Small scale businesses have been defined in various ways. One such definition is as follows:

Businesses that are conducted in an independent manner, under private ownership, with a relatively small number of employees and a low sales volume, are small scale businesses.



### Activity 01

The following is an excerpt from an interview given by Mr. Naveen Fernando to the monthly magazine “**The Small Businessman**”:

*When I started up this business, all that I put in was my own small plot of land and a small sum of about Rs. 5000. I also took in two or three employees. Since I own this business myself, it is very easy to run it. My business activities are mostly limited to the village. Though it is difficult to compete with large scale businesses, my business does have a strong foundation...*

Read the above paragraph well and identify five features of a small scale business. Check whether you have identified the following features:

- \* Small capital
- \* Small number of employees
- \* Owned by one person
- \* Easy to run the business
- \* Business activities limited to a small area

## 4.2 Relationship between small scale businesses and entrepreneurship

Having reached this chapter, we assume that you already have some understanding about small scale businesses and entrepreneurship. You will find that many entrepreneurs have started up their career through small scale businesses.

Entrepreneurial skills and hidden strengths (potential) of a person can be put into use to create opportunities for business development. It is through small scale businesses that most innovations have been created. It is easy for small scale businessmen to make use of their creative thinking and experiment with new products.

Today, the large scale businesses operating in the market cannot fulfil the needs and wants of everybody. As a result, there remains a section of the market whose needs and wants have not been satisfied (i.e. a market gap). By studying the market gap carefully, good business opportunities can be generated. Small scale businesses are ideal to address such opportunities.

There are many Sri Lankans who have conquered the business world through small scale businesses, by identifying their own skills and potential, and making use of their creative thinking.

Accordingly, the relationship between small scale businesses and entrepreneurship can be indicated through the following

- \* Many successful large scale businesses have been started up in a small scale.
- \* It is easy for entrepreneurs to make practical use of their creative skills, and this gives rise to innovations.
- \* When the market gap is identified, business opportunities can be exploited.



### Activity 02

Prepare a list of Sri Lankan entrepreneurs who have achieved great success through small scale business ventures based on entrepreneurial skills.

## 4.3 Importance of small scale businesses for economic development

The importance of small scale businesses for the country's economic development can be discussed along the following factors

- \* Increase in employment  
As small scale businesses come up in rural and peripheral regions, more job opportunities are generated in those areas. When people take up such jobs, the rate of employment is increased.
- \* Increase in the national production  
Small scale businesses create various products. Their value is added to the national production. This leads to an increase in national production.
- \* Greater equality in the income distribution  
As small scale businesses spread throughout the country, more jobs are created, and the people employed in them can earn their living. This way, when many people earn an income, the inequalities of income distribution are reduced.
- \* Providing goods and services that are not offered by large scale businesses  
It is difficult to fulfil the needs and wants of everybody through large scale businesses. A small scale entrepreneur who is capable of identifying this market gap can easily supply the required products to the market.
- \* Possibility of becoming large scale businesses in time  
As time passes, small scale business owners can transform their businesses into large scale ones, through their enthusiasm, dedication and creativity.
- \* Making use of indigenous knowledge and resources  
Small scale businesses most often use indigenous knowledge and resources for their business activities. This brings additional benefits. For example, it will stop such knowledge and resources from being wasted. Further, it will create a market for them, as well as add them an economic value.



## 4.4 Strengths of small scale businesses

Successful survival of small scale businesses is an essential factor in the economic development of any country. The strengths of small scale businesses, therefore, become important in this context.

‘Strengths’ refer to all favourable factors that are used and can be used for the starting up and running of a business.



Figure 4.1

There are a number of strengths associated with small scale businesses

- \* They can be started up with a small amount of resources (capital)
- \* The technology that is already available can be used
- \* It is easy to adapt the business according to the changes in the environment
- \* Special incentives are offered by the government for business activities
- \* It is easy to hire and train employees
- \* The multiple skills of the employees can be put to maximum use
- \* The employees of small scale businesses do not demand much privileges
- \* Family members can assist in the business activities

## 4.5 Limitations of small scale businesses

Today, the proliferation of small scale businesses has become a common feature in the economy of any country. However, once they are started up and being run, small scale businesses face certain limitations that are unique to them.

Here, limitations refer to the factors that hinder or limit the functioning of a business.

The following are some limitations associated with small scale businesses

- \* There are limited sources to obtain capital from  
The capital for a business is provided by the owner. When this is not sufficient, it becomes necessary to obtain a loan from another party. But in this regard, there can be certain limitations for small scale businesses.
- \* New technology is not used  
Small scale businesses do not make use of new technology, because of the owners' lack of awareness or the high cost involved.
- \* The market is limited  
The commercial activities of small scale businesses are limited to one area or a village. So the available market is small.
- \* Family members interfere in the business activities  
The business owner's family members may interfere unnecessarily in the business activities. This can disturb the functioning of the business.
- \* Limited experience and knowledge regarding business  
Small scale business owners often have very limited knowledge and experience regarding business. This may hinder the success of business activities.

## 4.6 Reasons for the failure of small scale businesses

Have you seen how many small scale businesses end up as failures, due to different reasons? If you look at such a business, you will see that most of these reasons are practical ones. So, if you list down the reasons for failure that you have noticed, they will more or less include the following facts

- \* Weak control of business finances
- \* Difficulty in facing the competition
- \* Business activities are not planned well
- \* Business owner fails to think as an entrepreneur
- \* Not controlling the business resources well
- \* Insufficient experience in business activities
- \* Weak human relationships

## 4.7 Actions to be taken for the success of small scale businesses

When you go through the above list, you will understand that many small scale businesses can fail due to various reasons. Therefore, what a successful entrepreneur should do is to identify those reasons for failure, find good solutions for them, and conduct the business in the correct manner.



Figure 4.2

Given below are some tips for the success of a business

- \* Plan the business activities well and implement them accordingly
- \* Get advice and guidance from experts
- \* Record the transactions accurately
- \* Identify the changes in the external environment
- \* Keep personal life separate from the business
- \* Obtain the help of governmental institutions that provide assistance with regard to market facilities, loans, research, etc
- \* Maintain good human relations



### Activity 03

Choose a small scale business in your area and study it thoroughly.

1. Indicate two benefits (each) from the business to the business owner and to the economy.
2. Identify two problems that the entrepreneur may have to face when running this business. Suggest some possible solutions for them.

## 4.8 Roles of an entrepreneur

A role refers to the functions performed by each party with regard to some work. When engaged in a small scale business, an entrepreneur has many tasks to perform. These functions performed as an entrepreneur can be identified as the roles of an entrepreneur.

For example, consider the functions performed by the father in a family. He has many roles - as a protector, a guide, an employee, a teacher, etc. All of these roles are necessary for the success of the institution called "family". Similarly, the principal of your school also has many different roles to perform.

An entrepreneur has different roles as the business owner, a manager, and a leader. Though we consider these roles separately, they are interrelated; and this interrelation is crucial for the success of the business.

### Role of the business owner

The ownership of a business is obtained by investing resources in the business. Investing resources can be done in different ways, such as by investing money, by putting in physical resources such as furniture, land etc, or by contributing through one's skills, talents etc.

When an entrepreneur fulfills tasks such as providing the necessary resources, taking risks, making decisions etc in order to reach the goals and objectives of the business, it can be identified as the business owner's role.

*Example :-*

buying the equipment necessary for the business  
taking up the profit or loss that is incurred

### Role of the manager

It is important to use resources so as to fulfil the goals and objectives of the business. This can be simply referred to as 'management'. To attain success in a business, the business owner must play the manager's role very well.

This way, the manager's role is to use the resources (which have been supplied in the role of business owner) appropriately in order to attain the goals of the business.

*Example :-*

formulating business plans  
checking their implementation

## Role of the leader

When attaining the established goals and objectives of a business, a good leadership is essential especially with regard to the human resource. Being a living resource, humans always respond where it is required. So a proper leadership for them is a must.

**When an entrepreneur properly leads, motivates and influences the human resource of the business as required, it can be identified as the role of the leader.**

### *Example :-*

- Motivating and guiding the employees
- Commanding them in work

Although these have been discussed as separate roles, an entrepreneur will have to perform all of them in the context of a small scale business. These roles are all interdependent. Study the following diagram.



### *Activity 04*

Lahiru Sirimanna is the owner of a small scale business and a well known entrepreneur in the area. Given below are some facts regarding his business.

- ❖ Had started up the business with his own money.
- ❖ His aim was to start the business with a good vision.
- ❖ Always tried to manage the resources properly
- ❖ Motivated the employees and gave them proper guidance
- ❖ Exchanged ideas with the employees
- ❖ Tried to organize all activities well and implement them

- ❖ Very keen to offer new products to the market, but understands the risk involved there
- ❖ One objective is to produce high quality goods
- ❖ Comparing the targeted results with the actual results is a habit of his
- ❖ Lahiru's skill for making correct decisions is the basis for all of these activities

Study the above facts well and identify 10 roles of an entrepreneur. Then complete the table given below as per the given example.

No.	Task	Entrepreneur's role
1	Providing capital	Role of the business owner
2	.....	.....
3	.....	.....
4	.....	.....
5	.....	.....
6	.....	.....
7	.....	.....
8	.....	.....
9	.....	.....
10	.....	.....

### 4.9 Basic skills to be developed by an entrepreneur

By now, we assume that you have gained a good awareness about the entrepreneur's roles as the business owner, the leader and the manager. The entrepreneur needs to have certain competencies/skills in order to perform such roles.

If we take an example, to perform your role as a student, your skills related to comprehension, memory, writing, discipline etc are of great importance.

Similarly, an entrepreneur needs to possess certain basic skills to perform well in his/her roles. Let us try to understand some of these skills.

### Technical skills

When working in a certain organization, an entrepreneur needs to have the knowledge, skills and experience relevant to using any system or technology that is specific to that work. These skills are referred to as technical skills. Technical skills are needed not only to perform some task, but also to lead others properly.



Figure 4.3

#### *Example :-*

skills relevant establishing, operating and maintaining a new machine brought in for the business.

Ability to follow a formal procedure to hire a better employee.

### Human skills

It is necessary to build good interrelations with the people inside and outside the organization. An entrepreneur's ability to create such a background, to motivate and persuade the relevant parties to develop good relations etc. is considered as human skills. These skills are especially important when dealing with groups of individuals, which is a live resource.



Figure 4.4

#### *Example :-*

Skills for exchanging ideas with groups of individuals in the business, delegating them work, motivating employees etc.

## Conceptual skills

An entrepreneur should be able to look on the business as a whole and make decisions for its future success, to develop them further, as well as to decide on and implement suitable strategies etc. This capacity of the entrepreneur is known as conceptual skills.



Figure 4.5

### *Example :-*

- Creating new products
- Discovering new markets
- Facing market competition

## Teamwork skills

When engaging in business activities, an entrepreneur has to work together with various groups and various people. He has to make the organization's personnel come together as a team and work towards attaining the goals and objectives of the organization. These skills are called teamwork skills.



Figure 4.6

### *Examples :-*

- Teamwork system
- Team spirit



## Communication skills

Disseminating information among the various parties of the organization, gathering the required information, recording the information methodically etc are considered as communication skills.



Figure 4.7

### *Examples :-*

- Conducting meetings
- Conveying messages
- Providing the relevant records and information to the relevant parties

## Counselling skills

A large number of employees engage in the business activities of the organization. Various practical issues can arise among them. On such occasions, an entrepreneur has to guide and advise the parties involved. This is identified as counselling skills.

### *Examples :-*

- Employees' personal issues, issues between employees, issues pertaining to welfare

## Setting the example

An entrepreneur has to lead his/her employees properly, provide them with guidance, and always take the initiative in order to achieve the planned goals of the organization. These are known as the skill of setting an example.

### *Examples :-*

- Not being discouraged when losses are incurred, and working harder to stabilize the business
- Being punctual
- Being fair



### Activity 05

What skills do you think are necessary to perform the various roles of an entrepreneur? Name them, and describe them in brief.

#### Let us write answers.



01. What is a small scale business? Explain briefly.
02. Indicate the relationship between small scale businesses and entrepreneurship.
03. Name the features of small scale businesses and explain one of them in brief.
04. Explain the importance of small scale businesses for the economy of Sri Lanka, pointing out three factors.
05. Many small scale businesses tend to fail some time after their start up. What are the reasons behind this failure?
06. Name the roles of an entrepreneur in a small scale business.
07. Briefly identify the following entrepreneurial skills:
  - Technical skills
  - Human skills
  - Teamwork skills

# 5

## Business environment



This chapter discusses the following facts.

- 5.1 Importance of studying the business environment
- 5.2 Classifying the business environment
- 5.3 Internal environment and its influence
- 5.4 External environment and its influence
- 5.6 Nature of the Sri Lankan economy
- 5.7 Major business sectors of the Sri Lankan economy
- 5.8 Abundant resources in Sri Lanka
- 5.9 Environmental trends

## 5.1 Importance of studying the business environment

Business environment can be defined in simple terms as all the factors and forces that influence the business activities positively and negatively, from within the business and from the outside.

Business environment keeps on changing. If one identifies these changes and responds appropriately to them, he/she can run a business easily. In addition, this provides important business related benefits for an entrepreneur. At present, Sri Lanka has a market-oriented economy. By studying the changes in the Sri Lankan business environment, many creative business ideas or opportunities can be generated in the different sections of the environment.

### *Examples :-*

- \* Tendency towards using computer technology, communication technology and e-commerce.
- \* Environmental tourism and the increased number of tourists (both local and foreign)
- \* Opportunities in the construction sector

While entrepreneurs contribute to create a business culture of quality, business environment provides a good foundation to ensure the survival of entrepreneurs. In order to attain business objectives, it is necessary to study the business environment with care.

Identifying the favourable and unfavourable influences of the business environment is useful to achieve the business goals and objectives. The opportunities and strengths arising through the environmental factors are advantageous to the business, while the weaknesses and threats are disadvantageous.

The entrepreneur should identify the favourable influences and use them to strengthen the business further. Similarly, he should also identify unfavourable influences and take steps to minimize them. It is the factors of the business environment that pave the way for the entrepreneur to make correct decisions.

The following table demonstrates how the modern business environment differs greatly from the business environment of the past.

Table 3.1 - Differences between the business environments in the past and in the present

<b>Business environment of the past</b>	<b>Business environment at present</b>
People often satisfied their basic needs at a minimum level	People are keen to satisfy their basic needs at a very high level
Needs and wants were simple	Needs and wants have become complex
There were limited goods and services to fulfil a certain need	There are many goods and services to fulfil a certain need
There was not much competition	Competition is severe
Businessmen were powerful	Consumers have become powerful
Profit was the principal motive	In addition to the profit motive, there are other motives such as social responsibilities
It was limited to a small area	It has expanded globally
Speed of change was very low	Speed of change is very high

Understanding the changes in the modern business environment is very useful for an entrepreneur. Given below are some advantages that can be gained this way

- \* Identifying the strengths and weaknesses of the business
- \* Identifying the various business opportunities available in the environment
- \* Identifying the threats faced by the business
- \* Conducting the production and sales activities according to the changes in the environment
- \* Formulating plans and determining strategies according to the changes in the environment



### Activity 01

01. Inquire about the past environment of your school. Observe the changes that have occurred in the school environment up to the present, and list them.

## 5.2 Classifying the business environment

Business environment can be divided into two principal parts, to make it easier to study. These are

- \* Internal environment
- \* External environment

### Internal environment

All the factors which are found within the business and which influence the functioning of the business organization are referred to as the internal environment. The major factors of the internal environment are as follows:

- \* Business owners
- \* Managers
- \* Employees
- \* Resources

By studying these factors, a person can clearly understand the strengths and weaknesses of his/her business.



Figure 5.1

## External environment

Factors which exist outside the business organization but which can influence its functioning are called external environmental factors. External environment is much broader than the internal environment. Factors of the external environment are given below:

- \* Micro environment
- \* Demographic environment
- \* Economic environment
- \* Political and legal environment
- \* Technological environment
- \* Natural environment
- \* Social and cultural environment
- \* Global environment

Studying the factors of the external environment helps to identify various business opportunities as well as potential threats that the business will have to face.



Figure 5.2

## 5.3 Internal environment and its influence

You already know that internal environment factors of an organization influence its business activities and that they help to identify the strengths and weaknesses of the business. Strengths can be used to achieve success in business. Getting rid of the weaknesses will also lead a business towards success. What should be noted here is that the influence of internal environmental factors can be controlled by the business itself. Let us examine each of these factors separately, together with the impact they have upon the business.

## Owners

The persons who provide capital for the business are the owners.

Owners who are financially sound are a strength for a business. They can provide the resources necessary for business activities without any hindrance. When the owners are well reputed people with experience in business, it is highly favourable for the business. On the other hand, weak financial capacity and wrong decision making can have a negative impact on the business.

## Employees

Employees are the persons who are engaged in the business activities of the organization.

They contribute their mental or physical labour for the business activities and earn salaries and wages in return. Employees who like their organization and believe in it are a strength for a business. Well trained and knowledgeable employees can conduct the business activities at an optimum level. When the employees are inefficient and untrained, it can disrupt the functioning of the organization. Employee appraisal, training and incentives are ways of minimizing employee weaknesses.

## Managers

It is the managers who manoeuvre the human and physical resources of the business and lead the way to attain the goals and objectives of the organization.

The success of business activities depends on the knowledge and skills of the managers. While talented and creative managers are a strength, even one wrong decision made by managers can be unfavourable for the business. Therefore, not having talented, creative, trustworthy and committed managers is a definite weakness in an organization.

## Resources

Resources refer to all physical and financial resources that are relevant for the business activities.

When a business has sufficient amounts of resources (such as machinery, buildings, vehicles and money), and when the latest knowledge is being used in the business, it is a strength for the entrepreneur. Lack of resources will hinder the attaining of business goals. Weak time management too is a weakness.

The strengths, identified through the internal environment, should be developed further; and measures should be taken to minimize the weaknesses.





### Activity 02

Read and understand the following statements well. Say whether each of them is a strength or a weakness.

01. The owner has some savings deposited in a bank.
02. Business activities are delegated to qualified managers.
03. Resources are not used economically.
04. Managers with different skills are hired by the organization.
05. Employees do not come to work on time.
06. Products of good quality are offered at a reasonable price.
07. Business premises are not maintained well.
08. New technology is used.
09. A loan has been taken at a high rate of interest.
10. There is a flexible plan for the organization.
11. No changes are made to go with the times.
12. The higher positions of the organizational hierarchy are duly respected.
13. The different skills and abilities of the employees have been identified.
14. There are good relations among the departments of the organization.
15. Research is done for the development of the business.

## 5.4 External environment and its influence

You already know that the external environment includes the factors and forces which influence a business from the outside and which cannot be directly controlled by the business. When opportunities are fully exploited and threats are resolved, business goals can be easily accomplished. Let us examine the factors of the external environment and their impact.

### Micro environment

Out of the factors of the external environment, the micro environment contains the forces that are the closest to the business.

Forces of the micro environment are customers, suppliers, competitors, those who offer similar products and those who wish to enter the business field in future. Though these are not fully controllable, the entrepreneur has some degree of control over them.

*Examples :-*

When there are a lot of customers who have the ability to buy goods and services, it is an opportunity.

When competitors change their strategies, it is a threat for an entrepreneur.

### **Demographic environment**

The population of a country and the factors associated with their lives are included in the demographic environment.

The market for goods and services is organized on the basis of the demographic environment. When the population grows, the market becomes broader, and more goods and services will have to be produced. Forces such as population growth rate, population's composition and age-wise distribution etc have an impact upon businesses.

*Examples :-*

When there is a greater population of children, it is a good opportunity for toy manufacturers.

When there is a greater population of adults in a country, it is a threat for the businesses producing goods for children.

### **Economic environment**

Factors that determine the economic conditions of a country are taken under the economic environment.

Factors of the economic environment, such as fluctuation of interest rates, changes in the price levels, rate of employment, salary level, foreign exchange rates etc can have favourable or unfavourable impacts upon business activities. It is useful for an entrepreneur to be aware of the opportunities and threats that can arise out of these factors.

*Examples :-*

When the rate of employment is high, people earn a better income, which can broaden the market. This is an opportunity.

A rise in the interest rate for loans is a threat for businesses.

## **Political and legal environment**

State economic policies and the laws relevant for their implementation are referred to as the political and legal environment.

International treaties, foreign trade, state policies and laws are the factors of the political and legal environment. They have much influence over the success of business activities as well as over the economic development of the country.

### *Examples :-*

When the country enters into international agreements, it opens up opportunities for the local exporters.

When the government raises the tax rates, it is a threat for businesses.

## **Scientific and technological environment**

The use of scientific methods and new technology, as well as the impact of research upon business activities, is considered as the scientific and technological environment.

New scientific discoveries, research and development, new goods and services, and information and communication are factors of the scientific and technological environment. With the development of technology, new products enter the market. When new goods and services are introduced, some products may go out of the market.

### *Examples :-*

Internet provides an opportunity for businesses to enter the foreign market.

Due to the use of digital cameras, there is less need of studios. This is a threat for studio owners.

## **Natural environment**

The influence of natural phenomena upon business activities is considered as the natural environment.

It is from the natural environment that the raw material and resources are obtained for businesses. We can identify natural resources and natural disasters as the factors of the natural environment. Some of the valuable resources of this environment have been used for business activities while there are some that have not. If natural resources are used in a manner that does not harm the environment, many opportunities can be gained. On the other hand, natural disasters can prove a threat to businesses as well.

*Example :-*

The demand for herbal products made from indigenous herbs is a business opportunity.

Natural disasters such as droughts and floods are a threat to agricultural activities.

### **Social and cultural environment**

It is the attitudes, values and life style of the people that are included in the social and cultural environment.

Traditions, values, beliefs and changes in the life style are taken as the factors of the social and cultural environment. In a country where there are people of different races, religions and cultures, it is important to be aware of the opportunities and threats that may come up for businesses. In addition, social and cultural values should be upheld through business activities.

*Example :-*

Foreigners come to watch the annual Kandy Perahara. This is a business opportunity.

When the number of vegetarians increases, it is a threat for manufacturers of meat-related products.

### **Global environment**

There is a tendency for the countries of the world to forego their borders and be linked together. This is referred to as the global environment.

*Example :-*

Greater possibility of entering the international market is an opportunity.

The local market gets flooded with products manufactured in other countries. This is a threat for local businesses.

Opportunities, which arise through the factors of the external environment, should be made use of. At the same time, steps should be taken to minimize the threats.



### Activity 03

The following are some influences of the factors of the external environment. Read them up carefully. Then, for each of them, indicate whether it is an opportunity or a threat, and also the relevant environmental factor.

01. A new international port is constructed
02. There is a formal system for waste management within the country
03. There is an increase in the number of families with a low income
04. There is a legal system which is favourable for businesses
05. The government has made it compulsory to use carbonic fertilizers when growing vegetables
06. The harvest of coconut is lower due to a fungal disease
07. The price of new technical equipment is high
08. There is a greater demand for Sri Lankan tea from foreign countries
09. Gem veins have been discovered in several places in the Central Province
10. The price of mineral oil has increased
11. There is a low rate of child births
12. The country is politically unstable
13. Programmes are implemented to encourage local industries
14. There is an internal conflict in the country
15. Goods and services are produced based on the cultural differences of the various ethnic groups
16. New technical equipment is introduced instead of the machinery which is in use
17. New competitors enter the market
18. There is a tendency to spend one's leisure in a productive way



### Activity 04

Pasan lives near the historical site of Sigiriya. He discovered a business opportunity through the windy and tropical climate of the area: he created and marketed a sun-hat that does not get blown away in the wind. There was a high demand for the product and it became a very successful business.

There can be similar opportunities in the area that you live. Briefly explain the relevant information and your ideas for a business that can cater to such opportunities.

## 5.6 The economy of Sri Lanka

### Nature of the economy of Sri Lanka

Sri Lanka has been a prosperous country from the past. The land was ruled by kings, and the people fulfilled their needs and wants through an agricultural life style. With the later arrival of the Westerners, the economy of Sri Lanka faced various changes. In this context, plantation industry can be identified as a mile stone. Following this, there have been major changes in the economic, social, administrative, business and industrial sectors of the country.

After obtaining the independence in 1948, various economic plans have been implemented for the economic development of the country. Businesses have been organized under the three main sectors of agriculture, industry and services. With the development of technology, businesses have introduced many new products into the market. Services and facilities such as high ways, electricity, communication, insurance, money, banking etc have spread throughout the country. As the industrial sector expanded, the contribution of the services sector has increased very fast. The principal aim in the present day economy is to enter the foreign market (in addition to the local market) in order to reach an overall economic development.

At present, the principal business sectors in Sri Lanka are the following.

## 5.7 Principal business sectors in Sri Lanka

### 01. Primary sector

Under this sector, resources are extracted from the natural environment in their original state. In other words, resources of the natural environment are put to use without changing them in any manner. Given below are some examples for businesses of the primary sector:

Agriculture and farming (cultivating flowers, timber industry, poultry etc)

Fisheries (fishing in the sea and in fresh water)

Mining (gem industry, lime stone industry, etc)

## 02. Secondary sector

Here, natural resources obtained from the natural environment are subjected to change in shape, quality or colour, and used for consumption or for other business purposes. That is to say, this is the sector that includes the manufacturing industries. There are two sub sections of this sector, namely:

- Manufacturing (cement, shoes, books etc)
- Construction (buildings, bridges, etc)

## 03. Tertiary sector

Businesses that provide the services needed for the people as well as for business purposes are considered under the tertiary sector. The following are some examples:

- Trade (retail, wholesale, etc)
- Services required for trade (banking, insurance, transportation, etc)



### Activity 05

Prepare a list of businesses in your area. Then categorize them as primary, secondary or tertiary.

## 5.8 Abundant resources in Sri Lanka

Sri Lanka is an island with a land area of 65610 square kilometres, and rich with a proud historical and cultural heritage. There are many resources in our country which are being used by entrepreneurs as well as many that have not yet been exploited. Some of these resources are man-made, while some are obtained from the natural environment. Resources can be divided into two main types, as

- \* Human resources
- \* Non-human resources

## Human resources

The managers and non-managerial employees engaged in business activities are considered as the human resource. It is through the human resource that one can take the maximum use of all other resources. The high literacy and skill for learning are some of the special characteristics of the human resource in Sri Lanka. The uniqueness of our human resource should be identified before exploiting it for business opportunities.

Studying these differences will enable an entrepreneur to use the human resource in a new and creative manner, which will create new business opportunities.



Figure 5.3

## Non-human resources

Here we will discuss about the resources that are non-human, including natural resources and man-made resources, which are used for business purposes. When compared to other countries, Sri Lanka possesses some unique resources.

An entrepreneur can study the environment and identify the resources which are abundant in Sri Lanka. It is his/her duty to look for such resources, and use them with maximum efficiency to generate creative business opportunities. Given below are some examples for such resources.



- \* Natural resources -  
Water, water falls, rivers, beaches, fertile soil, mountains, fish, expanses of shallow water and lagoons, low lands, rain forests, coral reefs, eco systems with high bio diversity, etc
- \* Mineral resources -  
Gems, lead, phosphate, granite, ilmenite, dolomite, silica sand, clay, lime stone etc
- \* Cultural resources -  
Historical places such as Anuradhapura, Polonnaruwa and Sigiriya, historical artifacts, stone carvings, wood carvings, paintings etc
- \* Natural forests -  
Wild life parks such as Yala, Kumana, Wasgamuwa; natural forests such as Sinharaja
- \* Fauna -  
Rare species of quadrupeds, birds, reptiles etc



Figure 5.4

**The following are some business opportunities that can be created using the above mentioned resources:**

## Agricultural activities

Sri Lanka has an age-old food tradition which is well-developed. Therefore we can create many new business opportunities through agriculture. Agricultural products such as vegetables, fruits, rice, grains and export crops can be grown using carbonic fertilizer, and it can be a successful enterprise. Processing, packaging and preserving agricultural products, as well as offering them to the foreign market, are some other possibilities. What is important here is letting go of the traditional agricultural products and thinking as entrepreneurs.

### *Examples :-*

Discovering new methods of preserving the harvest

Creating alternative products using those new methods

Encouraging tourism based agriculture

## Tourism industry

Sri Lanka is rich in resources of natural beauty that can be used to boost tourism. In addition, we have man-made resources such as airports, ports, highways, city renovation, etc. Developments in information technology can also be exploited to create new business opportunities in tourism.

## Ayurvedic medicine

Nowadays there is an increased demand for indigenous medicines. This demand can be fulfilled with the ayurvedic treatment methods and medicines which we already have. It is up to the entrepreneur to plan creative business opportunities based on the traditional field of Sri Lankan medicine. Such opportunities could cater to both local and foreign markets.

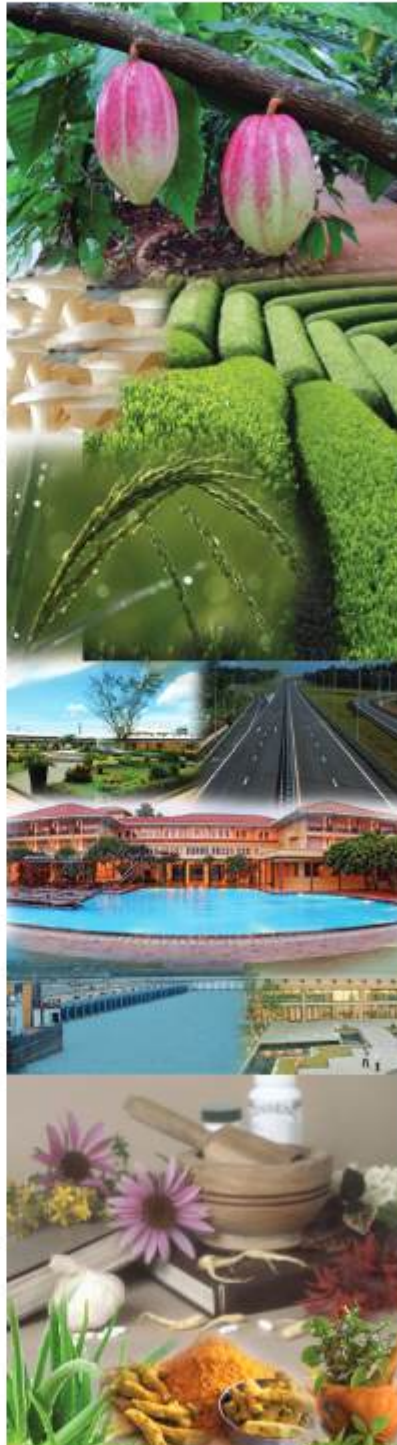


Figure 5.5

## 5.9 Trends in the business environment

The last few decades have seen some major changes in businesses. Parallel to these changes, the business environment too has changed. As the field of business broadens with these changes, many new trends have come up. The following are some of them;

- \* Using new technological methods and equipment
- \* Preference for environment-friendly products
- \* Popularity of new types of seeds and gardening
- \* Spreading of eco-tourism
- \* Greater demand for beauty culture, fashion etc
- \* Production of hygienic foods
- \* Increased demand for transportation, financial services and communication services
- \* Development of information and communication technology
- \* Greater preference for the natural environment
- \* Higher demand for ready-to-eat food
- \* Business opportunities through the construction industry
- \* Globalization
- \* Harnessing environment friendly sources of energy
- \* Business opportunities through nano-technology

### Importance of being aware of the environmental trends

Given below are some advantages that can be gained through being sensitive to the trends of the environment;

- \* Creating new sources of income
- \* Facing the market competition successfully
- \* Making use of resources that have not yet been explored
- \* Grasping successful business opportunities
- \* Minimizing environmental issues
- \* Identifying the essential development processes within the economy
- \* Protecting the indigenous resources and conserving them for the future



### Activity 06

Identify the resources available in your area and prepare a list. Indicate the business opportunities that can be created through those resources.

### Let us write answers.



01. Indicate 5 benefits that an entrepreneur can gain through studying the environment.
02. Give examples for new business opportunities that can be created through the development taken place recently in Sri Lanka
03. The business environment of the past has gone through many gradual changes. Present several differences that you can see between business environments of the past and the present.
04. The strengths of the owners are highly important for the efficient functioning of business activities. Explain, as you understand, how the owners can be a strength for a business.
05. When carrying out business activities in a changing environment, various weaknesses and threats will have to be faced. Name some of such problems and challenges.
06. Name the principal business sectors of the Sri Lankan economy and describe them in brief.
07. Present the components of the business environment using a flow chart.

# 6

## Introduction to business start-up



This chapter discusses the following facts.

- 6.1 Important decisions that should be taken before starting a business
- 6.2 Alternative methods to enter the market when starting a new business
  - Offering an existing product or a service to the existing market
  - Offering an existing product or a service to the a new market
  - Offering a new product or a service to the existing market
  - Offering a new product or a service to a new market
- 6.3 Successful entry strategies for a new business
  - Offering an unique new product or a service
  - Offering products through product differentiation
  - Innovations

## 6.1 Important decisions that should be taken before starting a business

A business can be generally defined as any economic activity carried out for the purpose of fulfilling human needs and wants. Accordingly businesses produce goods and services to fulfill the needs and wants of people or organizations using the limited resources available in the environment. This ensures that businesses exist based on the needs and wants of the people or organizations.

Anyone has the opportunity to start a business to offer products or services to the market. This should be done wisely and very carefully. Resources including money, own labour, time, self image have to be deployed when starting businesses. In order to make the businesses initiated as above successful, there are few decisions that should be taken in to consideration.

### Decisions that should be taken when starting a business

01. To which extent the person can dedicate for the business?
02. On which product or service the business is based?
03. Who is the target consumer?
04. What is the nature of the competition?
05. Are earnings adequate?
06. How to find the required capital?
07. How to start the business, individually or with partners?
08. What is the nature of the business location?
09. What will be the benefits the business generates to the society?

Let's discuss each of these decisions further.

#### 01. To which extent the person can dedicate for the business?

When running the initiated business ,entrepreneur has to engage in activities relating to different roles.

##### *Examples:-*

- \* Acquiring raw materials
- \* Finding employees and directing them
- \* Acquiring and maintaining machineries and equipments
- \* Obtaining and the required money and managing it
- \* Tasks relating to procurement and selling
- \* Production
- \* Fulfilling legal requirements

If such activities are to be carried out fruitfully, entrepreneur should entirely dedicate his effort and time to the business. Similarly the entrepreneur has to engage in the daily affairs and social relationship activities. Hence, whether the entrepreneur is capable of balancing his effort and time to make the business a success should be decided.

## 02. On which product or service the business is based?

One of the key factors which affect the success of the business is the product or the service offered to the market. That should,

### *Example :-*

Satisfy the needs and wants of the consumers

Have unique/distinctive features compared to other products and services

## 03. Who is the target consumer?

This emphasizes the target group of consumers to whom the product or the service of the entrepreneur is offered. In other words this is the total of current consumers (who are currently consuming the product) and the potential consumers (who may consume the product in the future). Products and services can be offered targeting different consumer groups and their likes/ dislikes and the purchasing power should be inquired.

### *Example :-*

- \* Children ,youth and adults
- \* Women and men
- \* Low income earners and high income earners
- \* Internationally dispersed Sri lankan consumer groups



Figure 6.1

#### 04. What is the nature of the competition?

Competition is an essential feature of the today's market. Sum of individuals or organizations who offer different products and services to the market to satisfy a certain need or a want are considered as competitors. It is important to get an understanding of the current competitors and the potential competitors who may enter the market in the future when assessing the competition.

*Example :-*

- \* There are many organizations which offer different products and services mentioned below to satisfy the need of cleaning clothes.
  - \* Washing soaps
  - \* Washing powder
  - \* Washing liquids
  - \* Laundry service

#### 05. Are earnings adequate?

The entrepreneur starts the business expecting a return. It should be sufficient to cover all the expenses of the business.

That is,

- \* Earnings should be capable of settling the expenses like,
  - \* cost of purchasing
  - \* taxes
  - \* rentals and
  - \* salaries

Similarly

- \* Earnings should be adequate enough to,
  - \* provide a sufficient profit to the owners
  - \* reinvest in the business for future improvements

#### 06. How to find the required capital?

Generally, an initial capital is required to start a business. The capital requirement differs depending on the nature of the business. Some businesses can be initiated with a less capital while some require a considerable investment even at the beginning. There can be different alternatives to fulfil that capital requirement.



Sources of capital for a new entrepreneur

- \* Own savings
- \* Deploying own assets or selling them
- \* Relatives and friends
- \* Bank loans and leasing
- \* Getting advances from customers

Even though there are alternative sources of capital, attention should be paid to their advantages and disadvantages

*Example :-*

When a bank loan is obtained, interest should be paid for that

## **07. How to start the business, individually or with partners?**

The entrepreneur can start the business individually or he/she can get the involvement of a member of the family or other external party. The most appropriate method should be selected after considering the advantages and disadvantages to the entrepreneur of starting a business individually or as a partnership. You will get the opportunity to further study this later.

## **08. What is the nature of the business location**

The critical factor which affects the success of certain businesses is the business location. The location of the business has to be decided by considering the following factors.

- \* Number of customers and their dispersion
- \* Ease of getting resources
- \* Convenience of acquiring labour
- \* Convenience of getting the infrastructure facilities like electricity, water, and communication
- \* Facilities which can be provided to the consumers (e.g.: parking and sanitary facilities)
- \* Cost of land/ premises( price/rental)

Depending on the nature of the product or the service offered by the entrepreneur, the nature of the location which suits the business differs. Some examples relating to this are given in the following table.

Business activity	Suitable location
Textile shop	A populous / congested place having enough space to display
Reception hall	An attractive place with transportation facilities in a peaceful environment
Store	A location in a suburban area with parking and transportation facilities
An outlet selling school equipments and stationeries	A location near schools
Conducting online or correspondence courses	A separate business location is not required. Can be run even at home.
Foreign tourist agency	Capital city

Table 6.1



### Activity 01

Isira Abenayake conducts a business which produces bags. He produces bags targeting different consumer groups.

*Example :-*

Children	school bags
Working women	women's hand bags
Tourists	Tourists' bags

Imagine you get a chance to produce the following products. Show how these products are produced and offered to the market based on different consumer groups.

01. Educational newspapers
02. Foot wear



### Activity 02

Prepare a list of few businesses that you are aware. Give reasons as to why the locations of those businesses are suitable or unsuitable. Use a table like following for that.

Business	Business location	Reasons why the location is suitable	Reasons why the location is unsuitable

## 6.2 Market Entry of the new entrepreneur

A business should enter the market with a good plan if it is to be successful irrespective of whether it is a small scale or large scale business. Four alternative methods are available for a new entrepreneur to enter the market.

1. Offering an existing product or a service to the existing market
2. Offering an existing product or a service to the a new market
3. Offering a new product or a service to the existing market
4. Offering a new product or a service to a new market

Since there are advantages and disadvantages of these alternative entry methods, it is necessary to evaluate them.

### 01. Offering an existing product or a service to the existing market

Many entrepreneurs follow this method. But the risk of this option is high. The reasons are that there are lots of competitors who offer the products to the market and consumers are used to the products of them. As a result the new entrepreneur has to incur a greater cost and put a considerable effort to attract the consumers for his/her product. Hence the cost of attracting consumers increases while earning profits becomes uncertain.

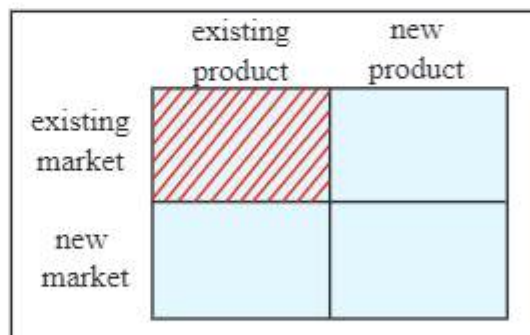


Figure 6.2

#### *Example :-*

People need detergents. Already they are using soap. Hence many laundry soaps are available in the market. The new entrepreneur too enters the market offering a washing soap to the market.

Starting a beauty saloon which is exactly similar to an existing one

## 02. Offering an existing product or a service to the a new market

There can be a group of consumers who are not used to consume an existing product or a service in the market. By offering an existing product or a service to them, the entrepreneur can enter the market. In other words, under this method a new customer base is created by offering the product to non-consumers, non consuming region or a country.

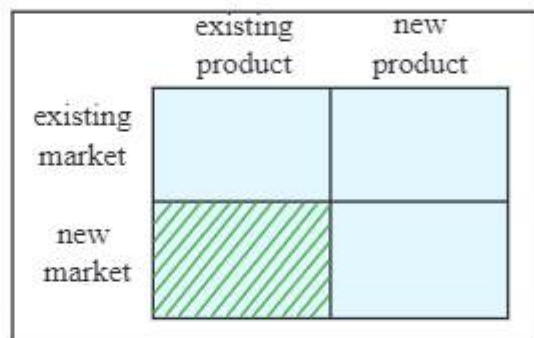


Figure 6.3

### *Example :-*

Accepting orders and delivering products and services to residences and offices

Offering the product during a period or at a time when the competitors do not sell the products (fruit cultivation during off season)

Though there are benefits under this method due to less number of competitors, certain risks prevail. Out of them, unfamiliarity of the new consumers with the product is a prominent risk.

## 03. Offering a new product or a service to the existing market

Many entrepreneurs enter the market through this method. It is possible to enter the market by making a certain change to an existing product or a service and adding a new kind of utility. Even though there is a risk due to the large number of competitors, acting strategically will help to win the market since there is a substantial customer base.

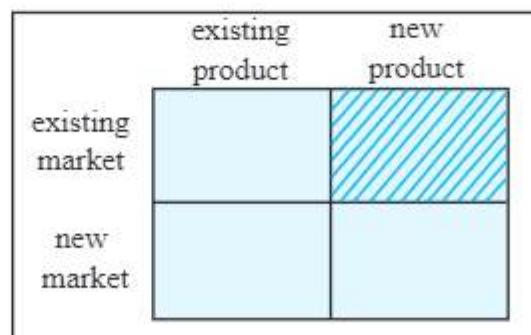


Figure 6.4

### *Example :-*

Introducing Smart phones to the mobile phone market

Withdrawing money from the ATM machine without the ATM card

Special footwear, foods and beverages for diabetic patients

#### 04. Offering a new product or a service to a new market

The main advantage for the entrepreneur who enters the business under this method is having no competitors. Hence, the entrepreneur can achieve greater success by acquiring 100% of the market share within a definite future. Yet there is a high risk since the consumer is totally unaware of the product. Further the target consumers are not precisely identified. Success can be achieved by accurately studying the market, working according to a plan and increasing the consumer awareness.

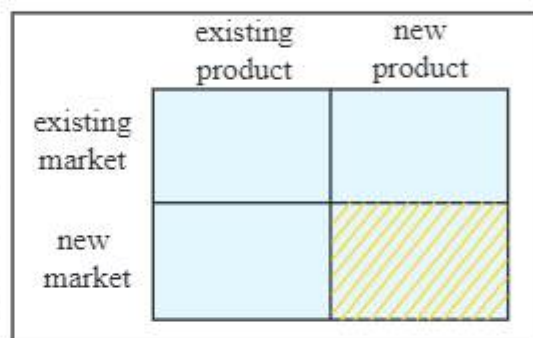


Figure 6.5

**Example :-**

Starting space tourism

Different products to reduce the elderly look

Producing a motor vehicle which runs using wind-power

## SCAMPER framework

To introduce a new product, an entrepreneur can use different methods. Among them, let's discuss how **SCAMPER** framework help to innovate existing products.

<b>S</b>	Substitute	Using an alternative input in place of the used inputs <i>Example :-</i> Substituting plastic door-frames for wooden frames
<b>C</b>	Combine	Combining several benefits together <i>Example :-</i> Adding the facilities of camera, radio, television and internet to a mobile phone
<b>A</b>	Amplify/Add	Enlarging a small thing <i>Example :-</i> Enlarging the TV screen, Mega soft drink bottle
<b>M</b>	Minimize	Reducing the size of a big object <i>Example :-</i> Introducing small shampoo packets (sachet), mini computers, mini cameras, soft drink buddy bottles
<b>P</b>	Put to other use	Producing a product which is produced for a specific function in a way that it can be used for another function <i>Example :-</i> Making a chair in a way that it can also be used as a bed
<b>E</b>	Eliminate	Removing certain parts <i>Example :-</i> Non-fat milk
<b>R</b>	Rearrange	Making changes in the arrangement or components <i>Example :-</i> Producing old textile fashions in a new way

Table 6.2 - SCAMPER framework



### Activity 03

Taking a product familiar to you as an example, explain how SCAMPER framework can be used to add innovations to that product using the following table.

Factor	Example	Product	Present condition	New condition	Benefits
Substitute	<i>Example :-</i> Altering the inputs				
Combine	<i>Example :-</i> Combining new utilities and new components				
Amplify(Add)	<i>Example :-</i> Increasing the size, weight, range and color				
Minimise	<i>Example :-</i> Reducing the weight, size of a product				
Put to other use	<i>Example :-</i> Producing a product in a way it can be used for other function than the original function				
Eliminate	<i>Example :-</i> Removing unnecessary elements				
Rearrange	<i>Example :-</i> Changing the appearance by altering the arrangement, colour Renewal				

## 6.3 Successful entry strategies for a new business

Among the above mentioned alternatives, whatever the approach followed to enter the market, the entrepreneur falls back amidst severe competition if appropriate strategies are not practised. As mentioned earlier, though many new businesses are initiated, only a few of them become stable, long lasting businesses. The reason is the imperfections of the strategies followed.

A person who starts a business should pay attention to suitable strategies for attracting the consumers to his/her products. Some such suitable strategies are discussed below.

01. Being a distinctive/unique new product or a service
02. Product differentiation
03. Market gap/space
04. Innovation



Figure 6.6

### 01. Offering a distinctive/unique new product or a service

If the product of the entrepreneur is unique and different in quality, size, packaging and other utilities compared to the competitive products available in the market, that can be considered as a successful entry strategy.

#### *Example :-*

- \* A pen with ink on one end and correction fluid on the other end.
- \* A soap having a packaging which can be used as a soap box

### 02. Offering the product using differentiation

Product differentiation is an attempt to differentiate the own product from that of the competitors.



Price of certain goods does not affect for a change in the demand of that product. In such a situation, the most appropriate mode of attracting customers is to make changes to the product. Hence product differentiation is a good entry strategy for an entrepreneur.

*Example :-*

Milk powder is offered to the market under different packages like;  
jambo pack  
budget pack  
economy pack  
sachet pack

### **03. Offering products to the market gap**

Market gap indicates that there is a group of customers in the market whose needs and wants are not satisfied.

Though large firms offer products targeting a large consumer base, they ignore the small group of consumers having distinctive needs. Hence entrepreneurs can effectively focus on such special markets which emerge due to the changes in the environment.

*Example :-*

There is a group of people in the society who have retired from government and private sectors. They have their own characteristics which are unique to them. Entrepreneurs can capture this market by satisfying their needs through the specifically designed offerings including radio channels, television channels, caring homes, senior citizen accounts and tours to Dhambadiva.

### **04. Innovation**

Innovation simply means doing something new. A product or a service can be innovated from the beginning of the production process till it reaches the hands of the consumer and even when providing after sales services. Through that the utility of a product is changed.

A skillful entrepreneur can introduce innovations for the following opportunities.

**Example :-**

- Using plastic instead of wood
- Cultivating in green houses instead of lands
- Creating kids' story books in different shapes
- New easy payment methods
- Twenty-four hours delivery
- Promotion through Short Message Service (SMS)



**Activity 04**

Suggest ways to innovatively introduce each of the following businesses.

- Individual teaching
- Selling used cars
- Printing stationeries
- Selling lands
- Showing films
- Repairing mobile phones



**Let us write answers.**

01. Give four reasons as to why being an entrepreneur is beneficial than doing a job.
02. Name a good or a service and show the bundle of goods and services which are competitive to it.
03. Explain the importance of adequate earnings to an entrepreneur.
04. Name five sources of capital available for a small scale entrepreneur.
05. Name alternative ways an entrepreneur can use to enter the market and write an advantage and a disadvantage of each of those alternatives.
06. Explain product differentiation. Name a product and show how it has been differentiated.
07. Explain the concept of "market gap".

# 7

## Business ideas and opportunities



This chapter discusses the following facts

- 7.1 Selecting a business idea
  - The concept of business ideas
  - Characteristics of a good business
  - Sources of business ideas
- 7.2 Converting business ideas in to business opportunities
  - Business opportunity
  - Difference between business ideas and business opportunities
  - Characteristics of a good business opportunity
  - Selecting a good business opportunity
- 7.3 Getting the legal cover to a creative business idea

## 7.1 Selecting a business idea

All the products, services, processes and techniques of today's world are the solutions offered to problems faced by mankind. They all are results of business ideas.

Think of the need for drinking water. Lack of sufficient drinking water supply is a common issue faced by many schools. Hence bottles of different sizes and shapes have been introduced to the market in order to bring water from homes. Since it was difficult to pack those water bottles in school bags due to their circular surfaces, cube shaped bottles were introduced to the market. As a result water bottles which can be carried without difficulties with books were created.

In this way, using their thinking towards the problems faced by people, creative individuals generate business ideas. Through observing the environment, it can be recognized that those ideas convert to viable businesses which produce different alternatives to satisfy personal and social needs.

### The concept of business ideas

A business idea is a thought having a commercial value which satisfies the needs and wants of people while being a solution to an existing problem in the environment. Business ideas are important in entrepreneurship since they emerge combining the interest and the creativity of an entrepreneur and since it is the first step of creating a business.

“A dozen of ideas can be bought for ten cents” is a common saying in the field of business. This implies that there are ample business ideas. Yet all of these ideas are not converted to a business opportunity. It is the role of the entrepreneur to transform the ideas in to a business opportunity.

### Characteristics of a good business idea

- \* Ability to developed as a business
- \* Ability to satisfy the needs emerge in the environment
- \* Ability to respond to the changing needs and wants
- \* Ability to successfully face the competition
- \* Should match with the technology
- \* Ability to reduce the risk
- \* Generate an adequate earning after converting to a business
- \* Ability to protect the business idea



Figure 7.1

Sometimes the entrepreneur has to consider hundreds of business ideas to select the most suitable idea. There are many sources through which the business ideas can be generated. Let's discuss them.

## Sources of new business ideas

01. Conversion of hobbies and interests
02. Through individual capabilities and experience
03. Through market surveys
04. Through consumer reactions and complaints
05. Through creative thinking ability
06. Through mass media
07. Relating to suppliers
08. By studying the competition
09. Through educational programmes
10. Through exhibitions and experience



Figure 7.2

The sources of business ideas given in the above figure are further discussed below.

01. Conversion of hobbies and interests in to a business idea  
People have different hobbies. There are a large number of entrepreneurs who have turned the hobbies like gardening, painting, breeding ornamental fish and photography to their business.
02. Emergence of business ideas through individual capabilities and experience  
Businesses begin through the experience and practice obtained from the job and utilizing personal capabilities like dancing, singing and sports.
03. Emergence of business ideas through market surveys  
Market surveys are carried out by an entrepreneur or other institutions in order to get the ideas of consumers regarding a product or a service. Business ideas are generated through the consumer needs, wants and responses revealed through such surveys.

*Example :-*

A bank providing their service at night and on public holidays based on the need of customers.

04. Emergence of business ideas through consumer responses

Business ideas can be generated through an investigation carried out by an entrepreneur or other institutions relating to the consumer needs, wants and responses. It is common to use suggestion boxes and consumer note books to get the ideas of consumers today.

*Example :-*

Changing the recipes according to the ideas of consumers.

05. Emergence of business ideas through creative thinking abilities

Through the individual creative capability, new ideas are given to change an existing thing or a process.

*Example :-*

Producing an equipment which can transform water vapour to drinking water

06. Emergence of business ideas through mass media

Business ideas can be generated through the information and news provided by mass media. There are ample advertisements available in the internet and daily or week-end news papers through which business ideas can be identified.

*Example :-*

Asking stationery suppliers  
Advertisements to offer products in wholesale  
Advertisements asking partners to a business

07. Emergence of business ideas through suppliers

A business which is currently operating can generate business ideas from the ideas of its suppliers and other institutions linked with the business.

*Example :-*

Introduction of new cultivation methods, seeds and fertilizers to those who are engaged in plantation by the institutions whom supplying agricultural equipments.

08. Emergence of business ideas through studying the competition

Business ideas can be generated through a study of the operations of competitors.

**Example :-**

Banks offering new services to the market to match the services of other competitors. When one bank introduces an account to the retired people other banks imitate that.

09. Emergence of business ideas through educational programmes

From the knowledge acquired through programs an individual follows, business ideas can be generated.

**Example :-**

There are individuals who start business from the knowledge and experience gained through the programmes conducted by technical colleges and universities.

10. Emergence of business ideas through exhibitions and experience

Entrepreneurs generate business ideas by participating to the exhibitions organized by chambers of commerce.

**Example :-**

Exhibitions of entrepreneurial products  
Competitions of innovators



**Activity 01**

Entrepreneur should generate business ideas through the changes that happen in the environment and should evaluate the feasibility of each idea. Following table explains how ideas are generated relating to an incident and their feasibility.

Incident: "sale of milk powder is prohibited" – a news

Business idea	Feasibility
* Opening a centre for breeding cattle	Farmers opt for cattle farming due to the increase in future demand for fresh milk. As a result they tend to breed animals of different categories which give a higher yield.
* Setting up a mobile unit to sell fresh milk	People tend to buy fresh milk from mobile units since fresh milk is available only in few places

You are required to generate business ideas identifying the changes like above in the environment. Give the feasibility/ suitability of each idea.

## 7.2 Conversion of business ideas in to business opportunities

Creation of a successful business will not happen instantly. It has a long way. This section explains the selection of a suitable/feasible business opportunity among the thousands of business ideas.

### Business opportunity

An attractive investment idea which can provide an adequate return to the risk taker can be identified as a business opportunity. Further that idea should be a product or a service which satisfy consumer needs and wants while creating a value for them.

Whatever the number of business ideas available, it is the role of the entrepreneur to select the best idea and transform it to a business opportunity.

### Difference between a business idea and a business opportunity

Already you have studied about the business ideas and business opportunities. You are aware that every business ideas will not become a viable business opportunity. Differences between these two concepts are identified below.

Business idea	Business opportunity
Business ideas are many. A large number of business ideas can be generated through different sources	Business opportunities are not ample. Only few business opportunities can be selected from hundreds of business ideas.
Business ideas are open. Many perceive them.	Everyone cannot recognize business opportunities among business ideas.
Every business idea cannot be implemented practically.	Business opportunities are practical.



## Characteristics of a good business opportunity



Figure 7.3- Characteristics of a good business opportunity

### Ability to acquire the required resources

It should be possible to easily acquire the raw materials, labor, machineries and other infrastructure facilities.

### Having demand

The product or service offered should have sufficient sales. That is there should be a considerable number of consumers.

### Comply with the rules and regulations

The business opportunity should not violate the legal conditions relating to environmental protection, consumer protection, employees, tax principles etc. Further though some factors are not covered by rules and regulations, they should comply with the social interest, fairness and values.

Having an attractive earning

The entrepreneur should be capable of getting a sufficient return for the money invested in the business by implementing the business opportunity .

Ability to face the competition

Possibility to successfully face the other businesses in the market who are engaged in similar businesses should be there.

## Selecting a suitable business opportunity

In order to select a suitable business opportunity, the business ideas generated should be evaluated.

Selecting a good business idea can be presented as a three-step process. This can be identified as macro, micro and SWOT analysis. The following funnel -framework can be used to illustrate that.

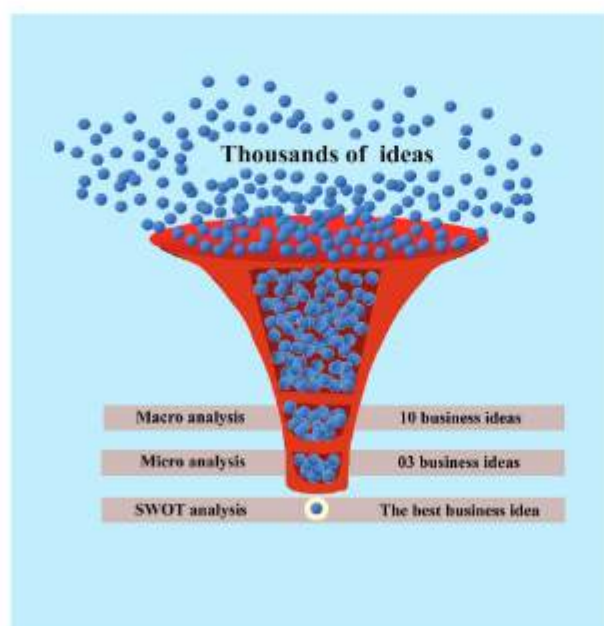


Figure 7.4- selecting a suitable business opportunity



## Step 01

### Macro analysis

Macro analysis refers to the selection of at least 10 suitable better business ideas among the thousands of generated ideas considering the below mentioned factors in surface relating to each idea.

- \* Can the product be marketed?
- \* Are there enough resources?
- \* Does it match with the abilities and interests of the entrepreneur
- \* Is there anyone to get the support?
- \* Are there legal barriers?
- \* Can the required capital be found?
- \* Is there the ability to face competitors?



### Activity 02

Try to generate ideas for which can be identified as suitable for starting a business. Focusing on following areas, generate at least 20 business ideas

#### *Examples :-*

- \* Solving the garbage issue of the school
- \* Providing organic fertilizer to farmers
- \* Distribute fresh milk

Considering the factors under macro analysis, select minimum of 10 ideas out of them.



## Step 02

### Micro analysis

This analysis should be done for each of the ideas selected under step 01. Under micro analysis three most suitable business ideas out of the 10 identified above are selected considering the effect of following criteria on each of the business ideas. Here, the factors considered under first step are studied in detail.

### Criteria which can be used for micro analysis

#### Having a market

This considers whether there are enough customers when the product is offered to the market or whether there is adequate sale to earn the required return to survive in the business. Moreover the ability to expand the business in the future should be considered.

#### Ease of finding raw materials

Under this the ease of finding quality raw materials under the lowest possible cost to engage in continuous production is considered. If it is difficult, this will lead to a break down in the production process.

#### Ability to find the required capital

Some business ideas require a substantial initial capital in order to transform them to business opportunities. The possibility of finding adequate capital under a minimum cost should be considered.

#### Government rules and regulations, principles and incentives

Even though very profitable, there are certain government rules and policies which influence some business fields. Some of them are environmental rules, employee regulations, consumer protection rules, import-export policies and tax policies. The extent to which these factors are favourable relating to the expected business idea and the government incentives like infrastructure facilities, tax reliefs and loan schemes should also be considered.

### Nature of the competition

The entrepreneur should be attentive of the other individuals and the organizations who offer a same or a substitute product to the product of the entrepreneur, their strengths and strategies as well as the potential competitors who may enter the market in the future.

### Knowledge, experience, skills and interests of the entrepreneur

The basic knowledge, experience and the interest of the entrepreneur are critical for the implementation of the business idea under consideration. This makes the management of business operations easy. Further this factor is important in order to make decisions of the business and to ensure continual commitment.

### Ability to find labour

The availability of skilled and unskilled labour, the cost of recruitment, selection and training, the ability to pay salaries and wages relating to the business idea should be considered.

### Risk

It is important to carry out a study regarding the possibility of the business being unsuccessful due to earning losses.

### Ease of initiation

Here the availability of other barriers to initiate the business and the possibility of easily initiating the business with minimum resources should be considered.

For micro analysis other criteria which seem suitable can also be used apart from the above mentioned ones. The entrepreneur will be able to select the most suitable business opportunity by evaluating the business ideas under more criteria.

It is important to assess the favourableness or the unfavourableness of the business ideas considered under different criteria. Then it can be entered to a point- scale as follows and the business ideas can be evaluated through that point-scale using a table as given below.

Guide lines for the use of point scale

*Example :-*

**Let's evaluate the factor of providing raw materials**

Criteria	Points
If it can be supplied from close proximity without any cost	5 points
If it can be purchased from close proximity	4 points
If it can be purchased from town and can be transported	3 points
If it has to be imported	2 points
If there are too many legal barriers	1 points

As such the following common point scale can be used to assess any factor.

Assessment	Very good	Good	Satisfactory	Normal	Weak
Points	05	04	03	02	01

In this way considering all factors independently a business ideas assessment sheet can be prepared as shown below in order to evaluate the business ideas.

Business ideas assessment sheet

Business Idea	Market	Raw materials	Labor	Technology	Earnings	Risk	Competition	Government support	Total points
1.....	4	5	3	4	3	3	3	3	28
2.									
3.									
4.									

At the end of this step you will be able to select the 03 ideas (out of the 10 taken for micro analysis) which give the highest scores after summing up the points allocated according to the assessment for each of the considered criterion.



### Activity 03

Assessing the business ideas using the above table, select the most suitable 03 business ideas out of the 10 business ideas selected under activity 02 .



### Step 03

## SWOT analysis

You have already studied the strengths, weaknesses, opportunities and threats relating to a business. By carrying out a SWOT analysis for each of the business ideas selected at the end of the micro analysis, the entrepreneur can identify the business opportunity which can be implemented easily and efficiently.

Few common factors which can be used when doing a SWOT analysis for a business idea are given below.

	Favourable factors	Unfavourable factors
Internal Environment	<p>Strengths</p> <p><i>Examples :-</i></p> <ul style="list-style-type: none"> <li>* availability of resources</li> <li>* having skillful employees</li> <li>* quality of the products</li> <li>* financial stability</li> </ul>	<p>Weaknesses</p> <p><i>Examples:-</i></p> <ul style="list-style-type: none"> <li>* Financial difficulties</li> <li>* Outdated technology</li> <li>* Scarcity of raw materials</li> <li>* Lack of employee commitment</li> </ul>
External Environment	<p>Opportunities</p> <p><i>Examples :-</i></p> <ul style="list-style-type: none"> <li>* Having a large number of consumers</li> <li>* Competitors quitting the market</li> <li>* Advancement of technology</li> <li>* Availability of research and development</li> <li>* Government incentives</li> </ul>	<p>Threats</p> <p><i>Examples:-</i></p> <ul style="list-style-type: none"> <li>* Unnecessary political influences</li> <li>* Strict rules and regulations</li> <li>* Natural disasters</li> <li>* Bad economic condition</li> </ul>

The business idea having the maximum advantages and opportunities with minimum weaknesses and threats can be selected by carrying out a SWOT analysis for the three business ideas selected from micro analysis. That will be the most suitable business opportunity to be implemented for the entrepreneur.

So far you have studied the steps of business opportunity evaluation process including generation of business ideas, macro analysis and micro analysis and SWOT. The steps of preparation of business plan in order to implement the selected business opportunity and initiation of business will be discussed in grade 11.

## 7.3 Getting the legal protection for a creative business idea

The entrepreneur who enters the business world through an appropriate business opportunity can get the legal protection for the business idea. If not, there is a possibility of acquiring the respective business idea by someone else. Hence a patent right is often used by a new entrepreneur to protect an intellectual property.

### Patent Rights

Patent is the government certification given for a new invention by someone. A new invention can be defined as a;

- \* New product
- \* New machine
- \* New process
- \* A combination of above factors
- \* Improvement to an existing invention

When a new invention is offered to the market others can copy it without it further being a secret. Hence in order to secure the ownership of the new invention a patent should be obtained and the validity period of it is 20 years. If required, the patent right can be sold to another businessman. Then the right passes to the person who buys it.



### Let us write answers.



01. Give differences between business ideas and business opportunities.
02. What are the sources through which business ideas are emerged?
03. State characteristics of a good business opportunity
04. State steps of selecting a suitable business opportunity out of business ideas.
05. What are the criteria that should be considered in order to carry out a micro analysis for business ideas?
06. Show
  - three strengths
  - three weaknesses
  - three opportunities and
  - three threats for a selected business
07. What are the legal facilities available for an entrepreneur to secure his/her creative business idea?

(All the pictures appeared in this book have been downloaded from the internet)