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## **UNIT 4 ENTREPRENEURIAL COMPETENCIES**

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### **Structure**

- 4.0 Objectives
- 4.1 Introduction
- 4.2 Entrepreneurial Competencies: An Overview
- 4.3 Entrepreneurial Aptitude
- 4.4 Creativity
- 4.5 Innovation
- 4.6 Inter personal skills
- 4.7 Business leadership
- 4.8 Problem solving
- 4.9 Communication
- 4.10 Negotiation
- 4.11 Risk management
- 4.12 Let us sum up
- 4.13 Key words
- 4.14 Answers to Check Your Progress
- 4.15 Terminal Questions

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### **4.0 OBJECTIVES**

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After studying this unit, you should be able to:

- describe the evolution of competencies;
- appreciate the role of various competencies for entrepreneurial performance;
- discuss specific competency areas;
- analyse linkages of specific competencies with the enterprise success; and
- explain the interdependencies between various competencies.

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### **4.1 INTRODUCTION**

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An enterprise is a brain child of the entrepreneur. Growth and success of business depends on the competency of the entrepreneur. Entrepreneurial competencies are very important for entrepreneurship development as well. Lack of entrepreneurial competencies may lead to low entrepreneurial activity in the society. We have already discussed in Unit 1 that entrepreneurship play a very important role in the economic development of the nation. We have also discussed that how an ecosystem is responsible for encouraging and motivating entrepreneur. In this unit, you will learn various

entrepreneurial competencies such as creativity and innovation, interpersonal skills, business leadership, problem solving, communication, negotiation and risk management etc. that are crucial for nurturing and promoting entrepreneurial activity.

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## 4.2 ENTREPRENEURIAL COMPETENCIES: AN OVERVIEW

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Since we are going to talk about various entrepreneurial competencies here, let us begin with understanding what competencies are? Competencies are primarily combination of skills, knowledge and attitude that determines the effectiveness of your performance. For example, if you are going to give a musical performance (singing) on stage, its success will depend upon how melodious your voice is, along with your performance style, musical instruments, background decor of the stage etc. Similarly, when we talk about entrepreneurial competencies, we are trying to describe all the skills and traits of an entrepreneur that effects the business growth.

Competencies are not tasks but enablers which help individuals to accomplish a task. Most common understanding of competency is that it is blend of skills, knowledge and attitude which leads to superior performance. Stoof (2005) and Tibb (1990) have defined competency as “an ability to perform certain tasks for which knowledge, skills, attitudes and motivations are necessary.” The entrepreneurial competences are the high level characteristics which define the prospect of success at different stages of entrepreneurial journey. The competency focus captures the human element of the entrepreneurship. The competencies help leverage opportunities and address issues at various stages of the enterprise development and sustainability. Hence, strength of competencies of an entrepreneur is associated with business outcome of the entrepreneurial endeavour. Competencies of people develop over time once they possess the knowledge and develop skills to apply that knowledge. More and more application helps gain experience and expertise. Expertise gives confidence and improves level skill. In most cases it brings a positive attitude towards that skill which the person applies in right situations. Hence, competence is combination of knowledge, skills and attitude which any person possesses.

There are several competencies which have been identified as effective inputs to the performance of processes taken up by the entrepreneur. The competencies of the entrepreneur required for new or smaller enterprise may not be same as required in case of a larger enterprise. Various researchers have categorized competencies of the entrepreneurs based on specific dimensions like stage of enterprise, sector, and phase of entrepreneurial journey of the individual itself etc.

Entrepreneurial competencies can also be seen from the perspective of enterprise stage- start up and enterprise sustainability. The competencies like risk-taking propensity, negotiation, communication, need for achievement can be critical for initial break through whereas negotiation, interpersonal skills, opportunity identification and networking skills help firms to adapt

and respond to variety of business challenges it faces to sustain and scale. It has been seen in various studies that competencies can have direct impact on the entrepreneurs performance in the short as well as long-run.

It is essential to understand that competencies are learnable and understanding the competency need for specific type of ventures, at specific stage of the venture can be of utility from the perspective of policy, capacity building or training, self-assessment and investment. These perspectives will try to analyse the fitment or potential of fulfilment before they show a buy-in for proposed new projects. Some common competencies identified comprise the following:

- Creativity,
- Innovation,
- Inter personal skills,
- Business leadership,
- Problem solving,
- Communication,
- Negotiation and
- Risk management.

Individual family background, education and experience can influence the strength of these competencies in an individual. Hence, it is helpful to have a more understanding of these types so that one can work on these to elevate the strength of these competencies.

In a nutshell, entrepreneurial competencies are:

- 1) A set of abilities and skills that are required to be in a budding entrepreneur for success of the venture. They may possess these skills and abilities or acquire these.
- 2) Set of skills and abilities that encourage them to take initiative and be creative and innovative.
- 3) Ability to develop, organise and manage a business venture that is established by the entrepreneur.
- 4) Ability to foresee risks, analyse them and take calculated risk.
- 5) Abilities and skills to negotiate network and make effective communication.
- 6) Interpersonal skills and hunger for achievement, affiliation and power.
- 7) Ability and skill to sense the environment and identify an opportunity which is workable and profitable.
- 8) Leadership skills, problem solving attitude and strength to manage risk.

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## 4.3 CREATIVITY

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Creativity is one of the important competencies for successful entrepreneurs which has the potential to generate new ideas, new solutions, see new perspectives and give confidence to the entrepreneur for sustained agility in innovation. **Creativity is defined as the tendency to generate or recognize ideas, alternatives, or possibilities that may be useful in solving problems, communicating with others, and entertaining ourselves and others.** The analysis of above definition shows that creativity refers to:

- Generation and recognition of ideas
- Development of alternatives for solving the problems
- Communication with others
- Entertaining ourselves or entertaining others

It is a phenomenon whereby something somehow new and somehow valuable is formed which can be a tangible product or an intangible product like an idea, composition etc. Creative capacity usually is not a finite matter which dries up with use. **It is about ability to generate novel, distinct and unresolved useful connections.**

Most of the successful entrepreneurs come up with new ideas, new solutions and novel ways to address problems in a better way or solve unresolved problems. It helps thinking in creative ways to manage internal or external processes of the organisations, structures, engagements, partnerships, resource management and other aspects of entrepreneurship. These processes help the enterprise to attain the advantageous position then place the enterprise in a position of advantage versus its competitors with a differentiation and edge.

Creative competencies allow entrepreneurs to offer promises to their stakeholders of being consistently innovative. The innovativeness gives their partners confidence to invest as investors or trust as a partner or reason for likeability for customers to be front runner with new introductions. Many large technology intensive firms are known for consistent innovation who bet on partner entrepreneurs in their network. They are assure that the innovative firms are creative enough to be consistent in bringing out new solutions on demand for their bigger partners who handle commercial part. In-house dependable creative competencies can encourage entrepreneurs to have scope for building their brand on a powerful plank of consistent innovation because innovation can be more routine if dependable creative competencies are accessible. It may be difficult for organisations to have a brand promise of being an innovative firm if it cannot roll out innovative products in timely manner which itself depends to a larger extent on its creative base or dependable creative networks.

**Benefits of creativity to entrepreneur:** The benefits of creativity can be seen as:

- 1) Creativity enables effective management.

- 2) It can address problems in a better way.
- 3) It can solve unresolved problems.
- 4) It ensures and enables effective utilisation of available resources.
- 5) It helps in overcoming the weaknesses.
- 6) It leads to innovation and innovative ideas.
- 7) It gives an edge vis-a-vis the competitors in the market.

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## 4.4 INNOVATION

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Innovation and Creativity go hand in hand. **While creativity means conceptualising something new, innovation is application of new or novel things to develop new product or a service. Innovation translates creativity into a utility.** One of the earliest definitions includes “*Innovation is the generation, acceptance and implementation of new ideas, processes products or services*” (Thompson, 1965). Some researchers have later tweaked the definition as “*Innovation can be defined as the effective application of processes and products new to the organization and designed to benefit it and its stakeholders*” (Wong et al., 2008). It is possible that innovators may have the ability to transform creative ideas into a commercially successful product or service but may not have capacity to bring creative ideas. Innovation is the key ingredient of productive thinking besides opportunity identification, risk taking and creativity to find new solutions. Successful entrepreneurs recognise opportunities and find innovative responses. They require innovative competencies to manage and ways to sustain these competencies.

**Process of Innovation:** The process of innovation has five basic steps. These steps are summarized in Figure 4.1 below:

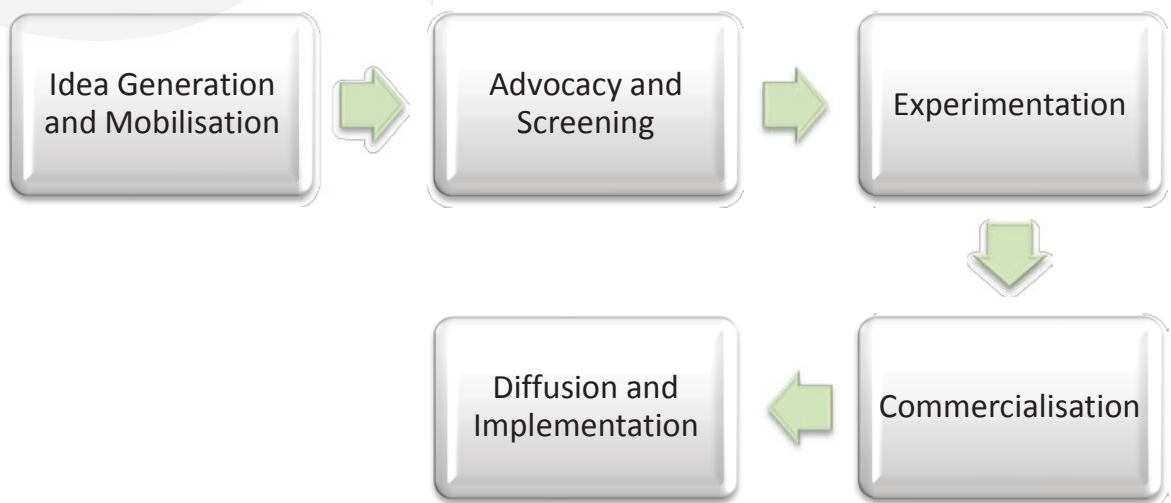


Figure 4.1 Process of Innovation

Innovation by entrepreneurs varies by the extent of novelty brought in by the new solution. There may be three types of innovations. They are:

- 1) **Incremental Innovation**
- 2) **Radical Innovation**
- 3) **Disruptive Innovation.**

Let us try to understand these types of innovation one by one.

At the basic level, it may be incremental innovation. It requires quick learning, foresight and experience of experimenting and deploying new features, additional utilities, and tweaks in functionalities and so on. As you have already discussed in Unit 1 that adaptive innovators do incremental innovation. Incremental innovation is a series of small improvements to the existing products. There is less risk in this type of innovation.

Innovation competencies can also drive a radical improvement in current technology solutions or processes for roll out. We have already learnt that ambitious entrepreneurs do radical innovations (Unit 1). In this kind of innovation, the existing business or system is destroyed and an entirely new business or system replaces it. A new brand is created and positioned. In this innovation, undoubtedly high risk is involved. It is a transformative business model. It converts the existing business, system, design or innovation into a brand new one. These innovations may push out other businesses to an end.

Innovative competencies can also bring a disruptive innovation. Disruptive innovation has the potential to replace the adoption of existing solutions and potential to affect the existing market equilibrium for current solution stakeholders. It forces the stakeholders to adapt new innovation to sustain. Hence, deeper innovative competencies are required by entrepreneurs to disrupt as well as find ways to face disruptions in times of speedy technological advances. It is quite similar to radical innovation. In this a new business is created to sell into an existing market, whereas, in radical innovation an entirely new market for radically innovated products and services is created and catered to.

Entrepreneurs leverage various innovative paths to succeed like **product innovation, service innovation, process innovation, marketing innovation, business model innovation** etc. Innovation may involve a variety of changes subject to organization's strategy, need, resources but importantly innovation competencies. Competencies for product innovation require sufficient research and development capabilities for various stages of new product development and commercialization. Depending on the type of product, it may include: competencies across design, architecture, prototype development, testing, procurement, production, and commercial roll out. Process innovation could be a project of business process reengineering where radical changes in the existing processes are carried out for radical gains. Hence, innovative competencies do not only understand existing solutions or process goals but it also requires ability to find alternate viable solutions and challenge existing assumptions.

The composite innovation led capability model could be based on an individual or few partners in a new start up or several competent people in a mature enterprise or across firms in a joint venture.

**Benefits of Innovative Competency:** Having innovative competency offers the following benefits to the enterprise:

- 1) Mostly, an innovative competency across functions and processes helps entrepreneurs to perform better in a competitive situation.
- 2) It helps to sustain because innovative competencies across functions gives a larger scope for enterprise to sustain based on innovation.
- 3) In a highly competitive market situation, competitors need to consistently differentiate to retain, penetrate and scale. Hence, it becomes important to have innovative competency to offer something different.
- 4) To sustain in the global market one must make strategic and innovative moves.
- 5) Innovation is important and critical to ensure smooth running of organisations due to evolving work place dynamics.
- 6) As you are aware that the tastes and preferences of customers keep on changing, therefore, innovation facilitates in satisfying the consumers in new ways.

It has been observed that many technology startups flop because of the lack of innovative competencies in managing commercial success or business governance or partnership management, and other aspects of running an enterprise in spite of their competencies to find an innovative product or service.

**Challenges of Innovation:** It is true that innovation is important but it also has certain challenges and risks associated with it.

- 1) Technological failure is one of the major challenges of innovation. To overcome this challenge, it is important for the entrepreneurs to carry out number of trials for the new product before it is implemented.
- 2) The other risk is the financial burden on the business enterprise. Innovation comes with a cost. Usually an innovative product gives the returns in the long run, therefore the enterprise face a major challenge of finance. The enterprises, therefore, are required to assess their financial position before taking up any innovative procedure.
- 3) The other challenge is the market failure. It is very much possible that an innovative product despite many trials does not give the returns as expected. Redundancy is another challenge for an innovative product. The market changes constantly with new technology coming up every now and then. By the time the innovative product is launched in the market, it becomes redundant due to technological upgradation.

Therefore, it is imperative for the entrepreneurs to keep abreast with the technology to avoid such risks.

- 4) Lack of structural and financial capacity of implementation is another challenge for entrepreneurs. This challenge is usually for the start-ups as they do not have a sound base. In this case they can look for the partners who are sound. Organisational risks are associated with innovation.
- 5) Sometimes the entrepreneurs tend to focus all its attention on the innovation. This hinders day to day activities of their enterprise. Therefore, it is important for entrepreneurs to have separate innovation centres so that the daily activities of the enterprise are not hindered.
- 6) There are unforeseen risks associated which are unprecedented like political events etc. The entrepreneurs need to have a contingency plan for the same rather than being over ambitious.

The challenges are definitely a part and parcel of a business venture but when overcome, these turn into opportunities. Innovation does help the entrepreneurs in many ways. Innovation does provide name and recognition to the innovating entrepreneurs.

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## 4.5 INTERPERSONAL SKILLS

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Interpersonal skills are generic types of skills which can be helpful across levels of any organisation including entrepreneurial ventures. **It is defined as the behavioral and tactical skills a person uses to motivate, influence and interact with others effectively. Interpersonal skills help entrepreneurs to manage host of other things which are key for success of venture.** Interpersonal competencies drive effective communication, networking, and partnership management. Interpersonal skills are driven by the individual need for involvement and expression while engaging with other people. It has been observed that one of the key competencies of successful entrepreneurs is an interpersonal skill which helps them manage their goals effectively. Interpersonal skills may include:

- Conflict resolution
- Empathy
- Positive communication
- Active listening
- Adaptability
- Confidence
- Patience
- Collaboration or teamwork
- Flexibility
- Diplomacy

**Importance of Interpersonal Skills:** The importance of having and developing interpersonal skills are discussed below:

- 1) Entrepreneurs need to persuade various stakeholders including customers, clients, investors, suppliers, competitors, and service providers at various stages of their journey. **At the early stages of entrepreneurship, interpersonal skills are a key competency to get the entire start-up team aligned to the organisation objectives.** They should be able to convince others and make them confident about the success potential of the venture.
- 2) Entrepreneurs need to identify and hire right set of people which requires ability to appreciate and assess requisite competencies and skills in order to attract the talent to join their venture.
- 3) Interpersonal skills are required for job performance, sustain meaningful dialogue and lead goal oriented engagement.
- 4) People with strong interpersonal skills tend to build good relationships and can work well with others as they understand others well. This could help in developing good relationships with clients and employees.
- 5) Interpersonal skills help in resolving issues and disagreements in the workplace, whether they involve the entrepreneur and employee or other parties.
- 6) When entrepreneurs help their employees to learn, motivate them and ask them for their feedback and ideas it increases the productivity of the enterprise.
- 7) One of the early challenges of most entrepreneurs is financing support. Apart from an attractive and viable business plan, team credibility and other requisites, investors give lot of emphasis on the interpersonal skill competency. **The display of such competencies gives investor confidence about entrepreneurs ability to govern, lead, find right resources, partners, liaison smartly with the regulators and so on.**
- 8) Networking is one of the major goals of successful entrepreneurs. Smart entrepreneurs continuously nurture networks which become source for potential opportunities, value enhancing partnerships and influence. Development of strong networks rides on the competency of interpersonal skills. Entrepreneurs should have the ability to leverage nurtured networks into productive relationships. **Entrepreneurs need to have negotiation skills, emotional management and interpersonal engagement skills to make their networks more productive.**

Certain interpersonal skills can be learnt by individuals wanting to get in to entrepreneurship. These skills can be groomed which may include: suitably designed learning and use of methods like collaborative learning, experiential learning, and cooperative learning methods which cultivates such competencies.

Effective interpersonal engagement is also a key attribute of smart and successful leaders which is again important for entrepreneurs.

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## 4.6 BUSINESS LEADERSHIP

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As mentioned above, **entrepreneurs should have leadership competency to lead their teams effectively.** Focus on managerial competency for entrepreneurs have been there since long. However there is sufficient evidence to show that leadership competence differentiates scale of success. **Business leadership is defined as the ability of an individual, group or organization to "lead", influence or guide other individuals, teams, or entire organizations to achieve the shared goals.**

**Entrepreneurs should have ability to inspire and convince others.** They need to carry a persona and conviction about the enterprise strength to achieve the set goals. That should have ability to transfer this conviction across the enterprise members to have the necessary motivation required to face uncertainties and challenges.

Entrepreneurs, besides other qualities, resources and good business plan, should be able to lead their teams. They should take up the challenges where the entire team is supportive of the initiatives taken by the leader and can put their trust in their leader.

**Characteristics of Business Leadership:** Business leadership has the following characteristics:

- 1) It is a continuous process whereby the entrepreneur influences, guides and directs the behaviours of his team, employees and key partners.
- 2) The entrepreneur is able to influence his team and partners behaviour at work due to the quality of his own behaviour as leader.
- 3) The purpose of business leadership is to get willing cooperation of the work group in the achievement of specified goals.
- 4) The success of a entrepreneur as leader depends on the acceptance of his leadership by the team, employees and partners.
- 5) Business leadership requires that while group goals are pursued, individual goals are also achieved.

**Importance of Business Leadership:** Leadership competency plays an important role in the success of entrepreneur which has been discussed below:

- 1) Entrepreneurs face challenges, particularly, in its initial stages to face the reality of the competitive markets. This requires adjustments, reworking, change and frequent transformation. Frequent transformation is a rule for entrepreneurial set ups in its initial stages rather than an exception. They need to adapt to the prevailing ecosystem as they do not have the size and scale to influence structures. It leads to situations where management and employees look up to the leadership for assurances about the future of enterprise.

- 2) Key partners and other stakeholders also prefer to associate with the enterprise headed by competent leadership for the sake of their own sustainability and long term relationship.
- 3) Goal setting is an important activity in any enterprise which is translated into various performance indicators for the team members to achieve. To pursue and achieve ambitious goals and gather more momentum for high performance, leadership competency plays an important role. Effective leader are able to get the entire team aligned to their vision and mission which heightens the motivation among the members to achieve the extraordinary. They are able reassure members and partners that their efforts are valuable and goals are worth putting that effort.
- 4) Having leadership competency helps entrepreneur to build congenial work-environment keeping in view the subordinates competence, needs and potential.
- 5) Where the subordinates face problems in connection with their performance at work, the leadership competency helps entrepreneur to guide and advise the subordinates.
- 6) Strong leadership strengthens the spirit of the team members and key partners.

#### Check Your Progress A

- 1) What do you mean by entrepreneurial competencies?
- 2) List out three benefits of creativity.
- 3) What do you mean by interpersonal skills?
- 4) Fill in the blanks:
  - i) ..... an ability to perform certain tasks for which knowledge, skills, attitudes and motivations are necessary.
  - ii) ..... means conceptualizing something new
  - iii) Development of strong networks rides on the competency of .....
  - iv) ..... is the ability of an individual, group or organization to lead, influence or guide other individuals, teams, or entire organizations to achieve the shared goals.
  - v) ..... is application of new or novel things.
- 5) State whether the following statements are **True** or **False**:
  - i) Disruptive innovation has the potential to replace the adoption of existing solutions.
  - ii) Creativity is about ability to generate novel, distinct and unresolved useful connections.
  - iii) Interpersonal skills consist of behavioral skills only.
  - iv) Individual family background, education and experience can influence strength of the competencies in an individual.
  - v) Leadership competence differentiates scale of success.

## 4.7 PROBLEM SOLVING

In any field, including entrepreneurship, problem solving competency is the key competency to cruise ahead otherwise chances of stagnation and reversal are higher. Problem solving competency is required to:

- Understand problems well.
- Understand alternative options as well as assumptions.
- To have awareness of risks and decision which can be executed within the context.

The fact that entrepreneurs must take risks means there is a higher chance of decisions going wrong and see failures. These failures teach us and bring lessons as well and help future endeavors. At the same time, the impact of bad decisions or escapism can be more severe and decision making process could be put to more scrutiny by the stakeholders in the current situation they are operating. Hence, effective problem-solving competency holds an important place in the competency grid of an entrepreneur.

Problem solving attitude sits on the conviction that there can be a solution for most of the problems faced. It requires:

- capability to identify context,
- identify the relevant factors of influence, and
- practical solution among the multiple solutions explored for a problem.

Competent problem solvers normally explore several alternate paths to arrive at most feasible one. They see the feasibility of resources and operational capacity to arrive at the right decision. The Process of Problem Solving is summarized in the figure 4.2:

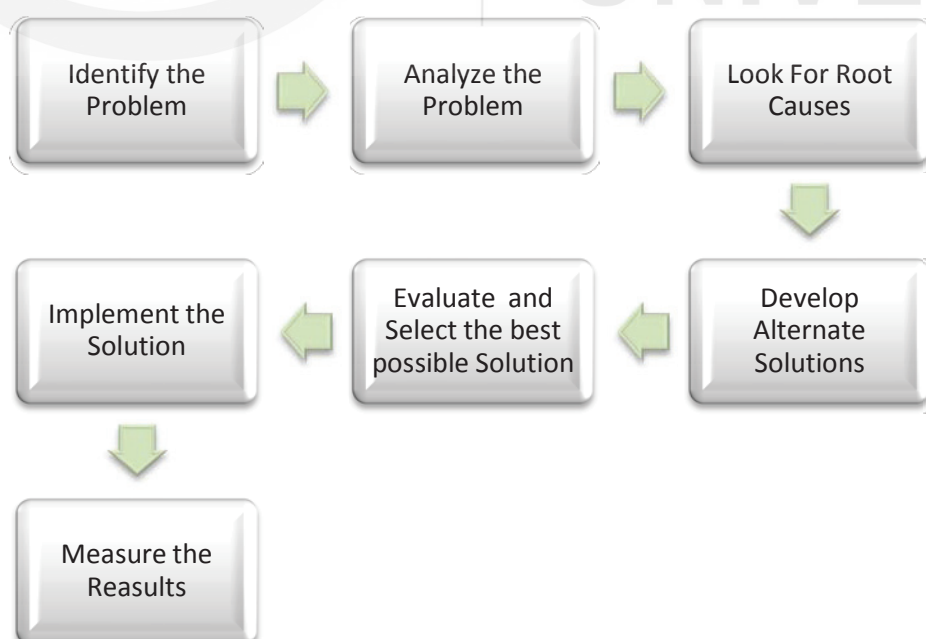


Figure 4.2 Process of Problem Solving

**Benefits of Problem Solving Competency:** Problem solving competency has the following benefits to the entrepreneur and his/her enterprise:

- 1) Entrepreneurs who have problem solving skills can observe, judge, and act quickly when difficulties arise. Moreover, they are not afraid of the unknown, and are well equipped to handle anything.
- 2) Problem solvers are not just equipped to deal with the problem at hand but are also able to anticipate problems that will arise in the future based on trends, patterns, experience, and current events.
- 3) Problem solving of competencies of entrepreneur helps him/her to overcome the interruptions of business and thus allow the business to operate smoothly.
- 4) The speed of problem solving is a key factor of success in most of the start-ups. When the start-ups entrepreneurs are quick in their response to situations which arise frequently during the execution of the business plan, then they definitely take lead over their competitors otherwise if they are slow, the competitors are usually there to take the lead.

**Challenges in Problem Solving:** Problem solving competency has the following challenges:

- 1) The challenge of problem solving competency is the need for understanding the larger picture as well as micro level understanding of the decision situation. It requires understanding of all relevant internal and external factors of major influence and their interdependencies.
- 2) One should have the knowledge of capabilities available and capabilities which can be sourced and trusted.
- 3) There should be understanding of the extent of outcome and impact in both cases if solution is right or otherwise. Hence, the entrepreneurs need to have agility and speed in problem solving.
- 4) A larger enterprise or organization may usually have procedures and protocols to follow in most of the decision situations, but small entrepreneurs may not have these elaborate procedures to follow. One side it provides facility to take speedy decisions but elevates the level of risk accordingly.

Problem Solving skills should be prevalent across the team members of the enterprise so that the speedy problem solving should not be limited to a specific function in any enterprise including a start-up.

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## 4.8 COMMUNICATION

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Another important determinant for successful performance of an entrepreneur is his/her ability to communicate effectively. **Entrepreneurs can miss opportunities if they are not able to communicate properly with investors, clients, team members, market and so on. It includes both, verbal as well as non verbal flow.** In many scenarios, the audience reads

more from non-verbal cues than verbal messages. The competency includes ability to hear the response and respond right to the audience response. Communication requires understanding of audience, level, context and limitations.

One to one person communication is different than communication with a group of people or large numbers. Communication context for an entrepreneur making a funding offer with a venture capitalist is different than interaction with a business magazine correspondent for coverage of the start up in the magazine. Communication with team members at senior level is different than communication with 40-50 new hires that have recently graduated from an engineering college or management school and want to contribute in a startup. Across all these cases, an effective communicator has to be a good listener who can empathise and manage expectations of the targeted audience.

Effective communication competency helps share vision and ideas which can be easily comprehended by the intended audience. Communication is defined as *“the transfer of ideas from the sender to the receiver”* Nwachukwu (1988). Communication is important glue for host of managerial functions like planning, organizing, monitoring, coordinating etc. to be carried out efficiently and effectively. It affects both, bottom line as well as top line, of the entrepreneurial project. Entrepreneurs require right communication skills to share goals with intended stakeholders. At every phase of entrepreneurship journey, there is need to communicate with the market which need to be done with right articulation to attract intended market players, investors interest, lobbying for the right influence, regulators etc.

**Importance of Communication:** Communication plays a very important role in the success of a business enterprise which has been discussed below:

- 1) In early stages of venture funding, investors allow very less time to make investor pitches where entrepreneur have to communicate their entire business proposal in a smaller time slot sometimes in few minutes. Hence, articulation of the proposal in fewer slides requires smartest skills of communication to attract the investor’s interest.
- 2) Similarly, while negotiating agreements with the partners, communication skills can make a big difference. Right selection of words, responses, body language and articulation can help make deals more favourable.
- 3) It facilitates putting the right organizational structure in place by allocation of roles and responsibilities communicated in a manner which is convincing, appreciating and gives sense of ownership.
- 4) Effective communication contributes a great deal to higher efficiency in job performance. It ensures willing cooperation of others due to the close understanding of ideas and instructions established through communication. Indeed a direct relationship exists between the effectiveness of communication and efficiency in an organization.

- 5) Successful entrepreneurs follow good branding practices as a long term strategy for growth and sustainability. Communication competency is the key ingredient to develop good public relations or desirable brand influence for the organization. Branding covers all aspects of business enterprise. The branding promise needs to be followed through action in terms of efforts, product attributes and processes of the organisation to stick to the promise made. Hence, external and internal communication needs to be in synergy to have compelling brand effect and secure a positive attitude towards the enterprise products and services.
- 6) Communication is also key competency within the competency grid and most of the other competencies have dependencies on this competence. For example, leadership competence, negotiation skills and interpersonal skills are dependent on communication competency.

**Effective Communication for Success of an Enterprise:** The principles or guidelines to making communications effective are of a general nature, operationally speaking, a number of more specific suggestions can be made to ensure the effectiveness of communications.

- 1) **Regulating the flow of communications:** Planning communication should involve determining the priority of messages to be communicated so that entrepreneurs may concentrate on more important messages of high priority. Similarly, incoming communication should be edited and condensed, if possible, to reduce the chances of overlooking or ignoring important messages received.
- 2) **Feedback:** Along with each communication there is need for feedback, that is, communication of the response or reaction to the initial message. Feedback may include the receiver's acceptance and understanding of the message, his action or behavioural response, and the result achieved. Two way communications is thus considered to be more helpful in establishing mutual understanding than one-way communication.
- 3) **Language of the message:** Use of appropriate language is essential for effective communication. While preparing the message, the sender must keep in view the climate, as well as the ability of receiver to interpret the message accurately. Abstract ideas should be explained and vague expressions avoided. He must keep in view tire semantic problem, that is, the possibility of particular words having more than one meaning. Experimental studies have shown that oral communication accompanied by its written version is more effective in bringing about the desired response.
- 4) **Importance of listening carefully:** Listening to verbal messages carefully implies an active process. Half-hearted attention to the communication is often the cause of misunderstanding and confusion. An entrepreneur has to be patient, mentally composed, and avoid distractions while receiving the message. He should be in a position to concentrate on the message and seek clarification, if necessary. On the other hand, the sender of the message must also be prepared to listen to what the receiver has to say, and respond to his questions, if any.

- 5) **Restraint over emotion:** Strong feelings and emotional stress on the part of either the sender or receiver of messages are serious handicaps in the communication process. To avoid any negative impact of emotion on the content of the message, the sender may defer the communication for sometime or consult to exercise restraint over his psychological feelings to avoid misinterpreting the message and to be able to respond to it with a composed mind.
- 6) **Non-verbal signals of compliance:** Verbal messages are generally accepted orally by the receiver. But whether action will follow the acceptance of the message is not certain. It is, therefore, suggested that in the case of verbal communication the sender should observe the action of the receiver to ascertain whether the actions are in conformity with the intent and understanding of the message.
- 7) **Mutual trust and faith:** No amount of seriousness of the parties involved can make the process of communication effective unless there is mutual trust and faith between them. Entrepreneurs have to cooperate for the purpose so that individuals feel free to make suggestions and correct each other's views without misunderstanding.

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## 4.9 NEGOTIATION

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Entrepreneurs require negotiation competencies for variety of deal making situations and at different stages of the enterprise growth. **It is a dialogue between two or more people or parties intended to reach a beneficial outcome over one or more issues where an interest of conflict exists with respect to at least one of these issues.** It starts right from the initiation of the idea and business proposal. Whether it is making of a partnership or securing funds, there will be scenarios of negotiation. Whether it is assignment of roles or agreement of the governance structure or the template for the business model, negotiation competencies play a key role to have things in favour for an entrepreneur. Same is case of developing partnerships, hiring key employees and so on.

**Effective Negotiation for Success of an Enterprise:** The following principles or guidelines may be followed to develop effective negotiation competency:

- 1) In any deal making scenario or agreement to decide appropriation of benefits and liabilities, there is tendency to put one's interest first. This looks logical and entrepreneurs are no exception. In order to be an effective negotiator, it is important to look at these situations objectively. It could be futile or waste of effort and cost if the negotiation fails and, hence, would be mostly the last thing one would desire. Good negotiators have the skills to balance these contrasting goals of parties on both sides and still help their enterprise develop and stay competitive.
- 2) Negotiation competence requires knowledge, skills, and experience to understand deeply about what are we offering and what do we want from the other side. One need to gauge what are the options and band width

for parties on both sides and what could be the limiting point. It is not a standard recipe. It takes time and experience for people to develop these skills which helps them to have the right approach in a given situation and gives them an upper hand in that negotiating situation.

- 3) Good negotiators do sufficient due diligence and home work about the case in hand and about the other side before they come to the negotiating table as they need to plan and prepare. Hence this competence is complemented by the research skills of a person to dig sufficient relevant information before the negotiation.
- 4) This competence is also dependent on communication skills as already mentioned before. Smart negotiators are excellent articulators and good at use of bogy language.
- 5) Smart negotiators understand the strengths and weaknesses of both sides and able to place and time their offers and resistance to reduce undesirable outcome. Competent negotiators exhibit sufficient emotional control. It requires flexibility in approach and judgment to understand other side possibilities. It helps to look at the situation objectively and avoid undesirable deal failures which could otherwise happen and good opportunities may be missed out.
- 6) Entrepreneurs need to have strategic thinking and see long term while negotiating deals. Many deals by smart entrepreneurs are necessarily not made for immediate gains in the short run or medium term. They look at longer term horizon; build productive networks which can be leveraged for larger gains in the longer run. Sometimes it may also make sense to walk away from the negotiation in the interest of long term strategy.

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## 4.10 RISK MANAGEMENT

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Identifying risks and vulnerabilities of any business proposal and planning mitigation is essential for any sound business plan. **Risk management is the identification, evaluation, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability or impact of unfortunate events or to maximize the realization of opportunities.** The analysis of above definitions shows that entrepreneurs:

- identify, evaluate and prioritize risks,
- coordinate and economize the resources,
- manage unfortunate events, and
- maximise the realisation if opportunities.

Hence competencies to manage risk are crucial for an entrepreneur and the team managing the enterprise.

Identification of risks can be explored through deeper review of assumptions which are basis of the business plan and operations envisaged to realise entrepreneurship goals. This helps in developing scenarios or possibilities

which can give the sense of how extreme situations like possibility of losing entire liquidity or situation of bankruptcy or brand related problems are to be handled. Entrepreneurs should have understanding of likelihood of risks to plan a measured response based on capabilities. Response could be mitigation, avoidance, bypassing and face off.

Hence, competencies to understand risks and develop response plan requires a spectrum of competencies cutting across various functions. These functions include: technical skills to calibrate possibilities, impact and prioritise. Much of this competence to be put in practice requires sufficient information, measurement skills and relevant technical skills to figure out variety of risks entrepreneurs face.

Some of the specific risks could be about the:

- Product design acceptability.
- Material availability.
- Resource availability.
- Key talent attrition.
- Predatory pricing by competitors and so.
- One of the major risks could be concerning regulations and political volatility.

**Importance of Risk Management:** Risk management competency is important because of the following:

- 1) Risk management has perhaps never been more important than it is now. The risks to which the modern organizations are exposed to have grown more complex, fueled by the rapid pace of globalization.
- 2) It makes entrepreneur confident as well as gives confidence to the stakeholders like investors, insurers, or partners that the organisation can handle adverse situations.
- 3) Entrepreneurs need to have the awareness of various scenarios possible which can affect the planned course of action and expected outcomes. They should be able to assess the impact of such events and prioritise and develop contingency response actions in case of such events happen.
- 4) New risks are constantly emerging, often related to and generated by the now-pervasive use of digital technology. Technology intensive sectors and Information technology sector based enterprises are highly influenced by the technical standards adopted by firms. Many times, due to speed of innovation in the sector, things get disrupted or standards take time to get universally adopted. In such cases, the things are in flux and entrepreneurs who have ventured in that sector are at the risk of possible solution redundancy.
- 5) Similarly, lack of local regulation can also affect investors' confidence and enhance the risk level for the proposed business plan. For example, many states are yet to come up with complete regulatory policy for block

chain technology application which elevates the risk level for many startups in such states whose planned ventures are built around application of this technology.

### Check Your Progress B

- 1) What do you mean by entrepreneurial problem-solving?
- 2) List out three benefits of communication.
- 3) Write three benefits of risk management.
- 4) Differentiate between verbal and non-verbal communication.
- 5) State whether the following statements are **True or False**:
  - i) Problem solving attitude sits on the conviction that there can be a solution for most of the problems faced.
  - ii) Communication includes only verbal flow.
  - iii) The only risk an entrepreneur face is financial risk.
  - iv) Negotiation is a dialogue between two or more people or parties intended to reach a beneficial outcome over one or more issues where a conflict exists with respect to at least one of these issues.
  - v) Development of contingency response actions is not important for an entrepreneur.

### ACTIVITY 1

Mr. Raj has voluntarily resigned from a technology firm after spending 12 years. He is a software engineer and a management graduate from a leading business of India. He wants to start an online retail start-up to sell sports shoes targeted mainly at youth segment in India. He has set up a small office in Noida and completed basic formalities like registration, account etc. He has tied up with some shoe manufacturers to use their spare capacities to manufacture sports shoes. Initials trials of selling product using Amazon.in platform have shown positive results. Now he wants to set up his own online shop which could be accessed through web and mobile apps. He has to make a business plan and figured out funding requirements for his project. He has also got appointments with few investors in Bengaluru next month for funding support. Ramanathan is close college friend who is now working as financial consultant in a leading consultancy, has shown keen interest to partner and ready to leave his job if the partnership materializes. Raj is also positive towards this possible partnership and both want to have a discussion in couple of days to take final call on partnership.

- What are the challenges for Raj and what all competencies he need to have which will be helpful for him to achieve his immediate goals i.e., now onwards till he can expect roll out of his venture pan India?

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## 4.11 LET US SUM UP

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Entrepreneurs along with their teams need various competences during their journey to realise their vision and goals. Competency is combination of skills, knowledge and attitude which leads to superior performance. Skills grow with experience. It is important for prospective entrepreneurs to appreciate importance of various competencies and realise their interdependencies. There are host of competencies which could help entrepreneurs tread the right track.

Essential set of entrepreneurial competencies include: Creativity, Innovation, Interpersonal skills, Business leadership, Problem solving, Communication, Negotiation and Risk management. Depending on stage of entrepreneurial journey, context, audience and capabilities, specific competencies may be relatively essential to seize opportunity or fight threats.

Creativity is one of the important competencies for successful entrepreneurs which has the potential to generate new ideas, new solutions, see new perspectives and give confidence to the entrepreneur for sustained agility in innovation. It is about ability to generate novel, distinct and unresolved useful connections.

Innovation and Creativity go hand in hand. While creativity means conceptualising something new, innovation is application of new or novel things to develop new product or a service. Innovation translates creativity into a utility. Innovation by entrepreneurs varies by the extent of novelty brought in by the new solution. There may be three types of innovations. They are: Incremental Innovation, Radical Innovation, and Disruptive Innovation.

Interpersonal competencies drive effective communication, networking, and partnership management. Entrepreneurs need to persuade various stakeholders including customers, clients, investors, suppliers, competitors, and service providers at various stages of their journey. Development of strong networks rides on the competency of interpersonal skills.

To pursue and achieve ambitious goals and gather more momentum for high performance, leadership competency plays an important role. Effective leader are able to get the entire team aligned to their vision and mission which heightens the motivation among the members to achieve the extraordinary. They are able reassure members and partners that their efforts are valuable and goals are worth putting that effort.

Problem solving competency is required to: understand problems well, understand alternative options as well as assumptions, and to have awareness of risks and decision which can be executed within the context. Competent problem solvers normally explore several alternate paths to arrive at most feasible one. They see the feasibility of resources and operational capacity to arrive at the right decision.

Entrepreneurs can miss opportunities if they are not able to communicate properly with investors, clients, team members, market and so on. It includes

both, verbal as well as non verbal flow. Communication requires understanding of audience, level, context and limitations.

Entrepreneurs require negotiation competencies for variety of deal making situations and at different stages of the enterprise growth. It is a dialogue between two or more people or parties intended to reach a beneficial outcome over one or more issues where an interest of conflict exists with respect to at least one of these issues. It starts right from the initiation of the idea and business proposal.

Identifying risks and vulnerabilities of any business proposal and planning mitigation is essential for any sound business plan. Entrepreneurs need to have the awareness of various scenarios possible which can affect the planned course of action and expected outcomes. They should be able to assess the impact of such events and prioritise and develop contingency response actions in case of such events happen.

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## 4.12 KEY WORDS

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**Business leadership:** The ability of an individual, group or organization to "lead", influence or guide other individuals, teams, or entire organizations to achieve the shared goals.

**Communication:** The transfer of ideas from the sender to the receiver through verbal and non-verbal means. Communication is important glue for host of managerial functions like planning, organizing, monitoring, coordinating etc. to be carried out efficiently and effectively.

**Competency:** It is blend of skills, knowledge and attitude which leads to superior performance.

**Creativity:** Creativity is defined as the tendency to generate or recognize ideas, alternatives, or possibilities that may be useful in solving problems, communicating with others, and entertaining ourselves and others.

**Innovation:** Innovation can be defined as the effective application of processes and products new to the organization and designed to benefit it and its stakeholders

**Inter personal skills:** The behavioral and tactical skills a person uses to motivate, influence and interact with others effectively.

**Negotiation:** It is a dialogue between two or more people or parties intended to reach a beneficial outcome over one or more issues where a conflict exists with respect to at least one of these issues.

**Problem solving:** The competency to understand problems well, alternative options as well as assumptions, awareness of risks and decision which can be executed within the context

**Risk management:** Risk management is the identification, evaluation, and prioritization of risks followed by coordinated and economical application of

resources to minimize, monitor, and control the probability or impact of unfortunate events or to maximize the realization of opportunities.

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### 4.13 ANSWERS TO CHECK YOUR PROGRESS

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- A) 4. i. Competency ii. creativity iii. Interpersonal skills iv. business leadership v. innovation  
5. i. true ii. true iii. false iv. true v. true
- B) 5. i. true ii. false iii. false iv. true v. false

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### 4.14 TERMINAL QUESTIONS

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- 1) What is the meaning of managerial competency?
- 2) What are the various types of competencies which can help entrepreneurs to realise their goals?
- 3) How can entrepreneurs leverage various competencies at different stages of entrepreneurship process?
- 4) Discuss scenarios to illustrate interdependence between various competencies.
- 5) Discuss the importance of risk management competency in success of an enterprise.
- 6) “Entrepreneurs may miss opportunities if they are not able to communicate effectively”. Elaborate.
- 7) What do you understand by creativity? Discuss its advantages.
- 8) Discuss the different types of innovations.
- 9) What are interpersonal skills? How they help entrepreneurs to manage their goals effectively.

**Note:** These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.

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### FURTHER READING

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- <https://en.wikipedia.org/wiki>
- 7 Communication Skills Every Entrepreneur Must Master, COMMUNICATION STRATEGIES retrieved from <https://www.entrepreneur.com/article/239446> on 29-1-2021
- 5 Ways to Unlock Your Entrepreneurial Creativity retrieved from <https://www.entrepreneur.com/article/332213> on 29-1-2021