

# **Process of Setting up a New Business**

**Subject : Commerce**

**Lesson : Process of Setting up a New Business**

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## **Learning Outcomes**

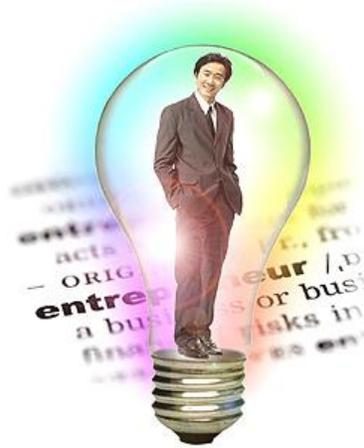
After you have read this chapter, you would:

- know the definition of entrepreneur
- understand the nature of entrepreneurship
- understand the function of the entrepreneur
- identify personal attributes that enable best use of entrepreneurial opportunities
- identify the steps in setting-up business enterprise
- visualize the process of setting up a business enterprise.

## 9.0 Introduction

An entrepreneur sets-up a competitive business enterprise. There are different definitions of 'the entrepreneur' and different conceptions of 'entrepreneurship'. Entrepreneurship is the capability of successfully exploiting innovative ideas and converting them into commercially viable propositions in a competitive market. The objective of this chapter, therefore, is to provide you with opportunities to consider and reflect upon various aspects involved in transforming an innovative idea into an entrepreneurial project.

**Figure 9.1 Entrepreneur**



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## 9.1 Concept of an Entrepreneur

<b>Value addition 9.1.1: Focus of the Section</b>
<b>9.1 Concept of an Entrepreneur</b>
Entrepreneurship is associated with the capability for successful exploitation of innovative ideas in a commercially competitive market. Therefore, this chapter aims at providing you with opportunities to consider and reflect on the personal aspects involved in transforming an innovative idea into an entrepreneurial project. In the following section, we have given different definitions of the term entrepreneur. This would help in improving your understanding of other related concepts.

### Definitions of an entrepreneur

There are three related concepts – enterprise, entrepreneur and entrepreneurship. The French words 'entre' (between) and 'prendre' (to take or carry) form the basis of the term entrepreneur. In other words, it means one who undertakes or one who is a 'go-between'. Given below are some prominent definitions.

**1725: Richard Cantillon:** An entrepreneur is a person who obtains a product at a given price and then sells it at a price in the future that is not known. The sale price is uncertain. He thereby makes decisions about acquiring resources and using them to produce while bearing the risk of an enterprise.

**1803: J.B. Say:** An entrepreneur is an economic agent who produces a product by uniting all means of production- land, labour and the capital from obtained different sources. The product so produced is sold in the market and a value is received by him in turn. He then pays rent for land; wages to labor; interest on capital and what remains is his profit. By virtue of this the entrepreneurship allocates resources by shifting resources out of an activity that has lower productivity to such activity that has higher productivity.

**Figure 9.2 Entrepreneur unites all means of production**



Source:

[http://www.google.co.in/imgres?imgurl=http://www.entrepreneursolo.com/wp-content/uploads/2010/02/Entrepreneur.jpg&imgrefurl=http://www.entrepreneursolo.com/entrepreneur-thoughts/the-entrepreneur-definition&usg=\\_\\_a7KzAjmdn3MgKKkrcq8OrUCxiXM=&h=1980&w=2654&sz=115&hl=en&start=10&zoom=1&tbnid=-WzzdwWx6KjmAM:&tbnh=112&tbnw=150&prev=/images%3Fq%3Dentrepreneur%26hl%3Den%26biw%3D1362%26bih%3D553%26gbv%3D2%26tbs%3Disch:1&itbs=1](http://www.google.co.in/imgres?imgurl=http://www.entrepreneursolo.com/wp-content/uploads/2010/02/Entrepreneur.jpg&imgrefurl=http://www.entrepreneursolo.com/entrepreneur-thoughts/the-entrepreneur-definition&usg=__a7KzAjmdn3MgKKkrcq8OrUCxiXM=&h=1980&w=2654&sz=115&hl=en&start=10&zoom=1&tbnid=-WzzdwWx6KjmAM:&tbnh=112&tbnw=150&prev=/images%3Fq%3Dentrepreneur%26hl%3Den%26biw%3D1362%26bih%3D553%26gbv%3D2%26tbs%3Disch:1&itbs=1)

**1934: Joseph Schumpeter:** Entrepreneurs are innovators. They strive to gain competitive advantage through the use of a process. They destroy the existing state of products and services. They pitch-in their business by introducing a new set of products and services. This process of innovation is known as 'creative-destruction'.

**1961: David McClelland:** [N-Ach] is the term associated with an entrepreneur. It means that he is energetic and a moderate risk taker. He is 'achievement motivated'.

**1964: Peter Drucker:** An effective entrepreneur converts a source into a resource. Innovation is a specific tool of an entrepreneur. He is always in search of change. He seeks new ideas and responds to it and exploits opportunities.

**1971: Kilby:** In fact, has a different viewpoint. He emphasizes that the role of an entrepreneur is to imitate. Entrepreneur does not innovate. They imitate technologies innovated by others.

**1975: Albert Shapero:** They undertake risk and accept risk of failure. Entrepreneurs are people who take initiative. They have an internal locus of control.

**1983: G. Pinchot:** Within a given organization if an individual shows tendencies of an entrepreneur he is known as an intrapreneur.

**1985: Israel M. Kirzner:** When entrepreneurs discover the a use of resources, they bring these resources into a new (economic) existence. Neoclassical economic theory is ill equipped to provide an understanding of both dynamic processes and the institutional infrastructure required to unleash this entrepreneurial spirit.

<b>Value addition 9.1.2: Check Your Comprehension</b>		
<b>9.1 Concept of an Entrepreneur</b>		
<ol style="list-style-type: none"> <li>Write at least five keywords relating to entrepreneur that you have learnt after studying the above section.</li> <li>Which definition impressed you the most and why?</li> </ol>		
<b>Pick the option that best suits.</b>		
<b>This section...</b>		
<b>Completely understood</b>	<b>Partially Understood</b>	<b>Not understood</b>
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<b>Move on to next section</b>	<b>Move on to next section but note that you need to revise this.</b>	<b>You need to re read this and discuss it with your batch mates.</b>

<b>Value addition 9.1.3: Test Yourself</b>
<b>9.1 Concept of an Entrepreneur</b>
1. Define the term 'Entrepreneur'.

## 9.2 The Entrepreneurial Process

<b>Value addition 9.2.1: Focus of the Section</b>
<b>9.2 The Entrepreneurial Process</b>
Here we shall study the stages through which an individual becomes an entrepreneur. Please remember that all the stages mentioned to be an entrepreneur may not occur in an individual's case. Even if this happens, they may not follow in the given sequence. The purpose of this section is to make you aware of the entrepreneurial process in general. You would also learn the three terms- Income generation, Self-employment and Entrepreneurship.

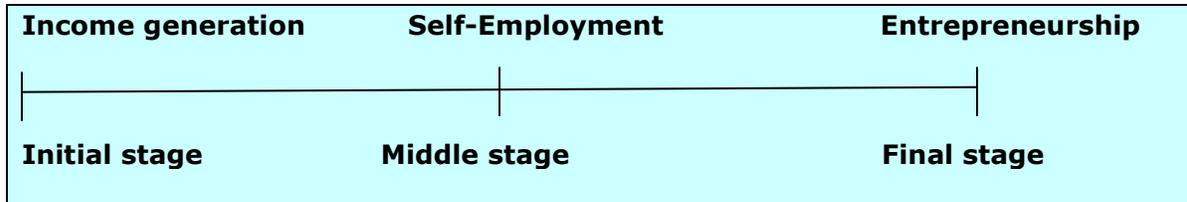
In general, entrepreneurs may be defined as people who manage a business with a view to expanding the business through the application of some kind of innovation and with the help of leadership and managerial capacity for reaching their goals. Mostly, they face strong competition from other firms and entrepreneurs.

Often the terms- Entrepreneurship, Income generation and Self-employment are used interchangeably. In fact, these terms represent stages in a certain process. It is known as 'entrepreneurial development'. First, it must be pointed out that the stages given below are not necessarily followed in the same sequence. Second, income generation is present in all stages while some self-employment can be very entrepreneurial. Most often there are three stages in the entrepreneurial process. While there are three stages in the setting-up of business as well, these stages need to be distinguished from those. These stages are about development of entrepreneurship.

**Income generation** The entrepreneurial process starts with income generation. Here one tries to generate surplus or profit. Initially they find jobs on part- time or adhoc basis. This is done for earning supplementary income. Often small savings are placed in a fixed deposit account or a chit -fund to earn some interest.

**Self-employment** Subsequently, the entrepreneurial process demands the full time involvement of the budding entrepreneur in his own occupation or vocation. The business is small and static.

**Figure 9.3 The Entrepreneurial Process**



**Entrepreneurship**

The final stage happens when after setting up a venture the entrepreneur looks for diversification and growth. One way to understand what entrepreneurship is by comparing and contrasting it with wage employment.

**Table 9.1 – Difference between Wage Employment and Entrepreneurship**

<b>Wage Employment</b>	<b>Entrepreneurship</b>
Work under a boss Follow commands Follow instructions Do Routine Jobs Get fixed earning though never negative  Choose amongst: Government jobs Public Sector Private Sector	Own Boss Have own plans Be creative Do what interest you Have uncertain earnings which could be even negative.  Choose amongst: Industry Trade Services

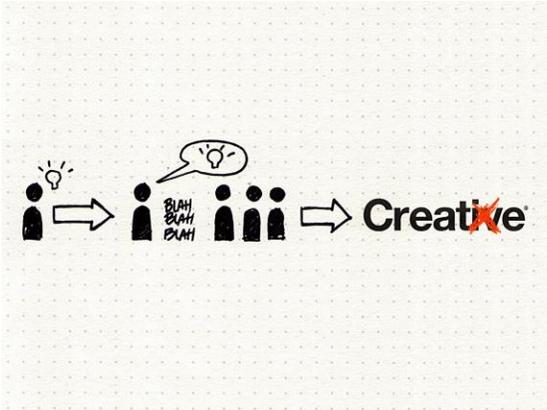
<b>Value addition 9.2.2: Check Your Comprehension</b>											
<b>9.2 The Entrepreneurial Process</b>											
<ol style="list-style-type: none"> <li>1. "Entrepreneurship can be described as a process of action an entrepreneur undertakes to establish his enterprise." Explain this statement with the help of an example.</li> <li>2. Write three keywords that explain the Entrepreneurial Process.</li> <li>3. Recall the three stages of the entrepreneurial process and explain with the help of a figure.</li> <li>4. In each of the following situations, identify the stage of entrepreneurial process: <ul style="list-style-type: none"> <li>• A person who is a peon in an enterprise who does the task of photo-copying, dispatch and other related tasks. His employment provides him bare subsistence. Although he earns enough for himself and his family, he has no inclination for growth or more earnings.</li> <li>• The peon mentioned above quits wage employment and opens up his own photo-coping shop on a very small scale. His shop is a one man show and he does all the work himself. Due to one manned enterprise, profits are limited and only photocopying to a limited scale can be handled.</li> <li>• The photo-copier who worked by himself, now desires to grow and expand his business to make surplus profit and multiplies himself by giving employment to several other people in his organization that now deals in fax, dispatch, courier, responding to e-mails of a client, besides the photo-copying. The enterprise now has huge turnover and revenue that provides income to many.</li> </ul> </li> </ol> <p><b>Pick the option that best suits.</b>  <b>This section...</b></p> <table border="1"> <tr> <td><b>Completely understood</b></td> <td><b>Partially Understood</b></td> <td><b>Not understood</b></td> </tr> <tr> <td style="text-align: center;">↓</td> <td style="text-align: center;">↓</td> <td style="text-align: center;">↓</td> </tr> <tr> <td><b>Move on to next section</b></td> <td><b>Move on to next section but note that you need to revise this.</b></td> <td><b>You need to re read this and discuss it with your batch mates.</b></td> </tr> </table> <p>(Hint to question 4: The stages are- income generation, self employment and entrepreneurship in sequence).</p>			<b>Completely understood</b>	<b>Partially Understood</b>	<b>Not understood</b>	↓	↓	↓	<b>Move on to next section</b>	<b>Move on to next section but note that you need to revise this.</b>	<b>You need to re read this and discuss it with your batch mates.</b>
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<b>Value addition 9.2.3: Test Yourself</b>											
<b>9.2 The Entrepreneurial Process</b>											
<ol style="list-style-type: none"> <li>1. Define entrepreneur.</li> <li>2. Define entrepreneurship.</li> <li>3. Explain the stages in the 'Entrepreneurial process'.</li> </ol>											

### 9.3 Economic Function of the Entrepreneur

<b>Value addition 9.3.1: Focus of the Section</b>
<b>9.3 Economic Functions of the Entrepreneur</b>
We learn in this section that ideas attract new entrepreneurs and that the economic function of an entrepreneur is to generate new ideas. They seek to set-up new business with them to gain commercially. They seek funds for implementing their ideas. This can be done only with the involvement of people. This enables the formation of a firm where people act as a team. The firm competes in the market. It earns profits. This is a signal to other firms. This leads to competition because other firms enter in search of profits. In the process competition increases.

Entrepreneurs have two vital roles to play in the economy: First, to generate new ideas; and second, to galvanize the business processes. To begin with the entrepreneur was seen 'go-between'. The entrepreneur was initially seen as someone who bears uncertainty and risky. They indulge in arbitrage [buying goods at a given price to be sold elsewhere for profit, under conditions of uncertainty]. While entrepreneurs do indulge in arbitrage, today, it is the age of technology, knowledge and services that provide new entrepreneurial opportunities.

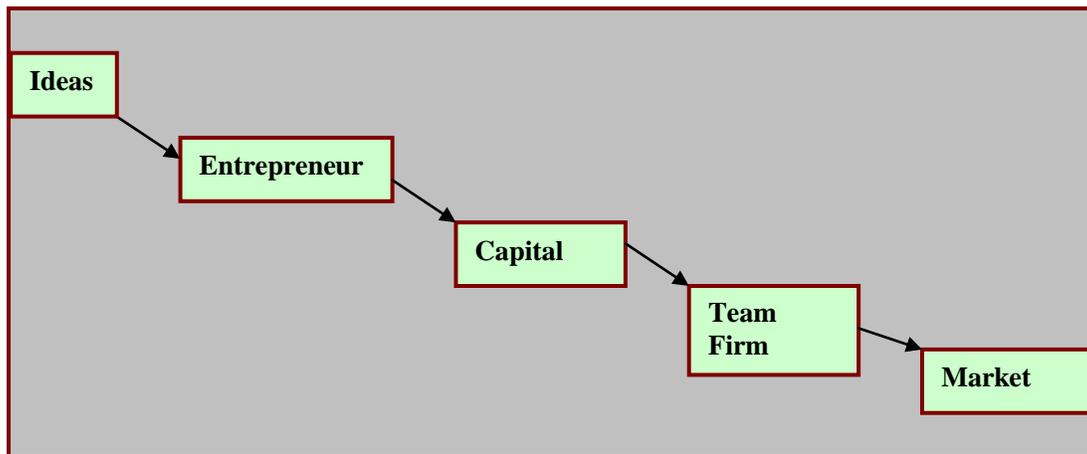
**Figure 9.4 Functions of an Entrepreneur:  
To introduce new ideas and to energize the business process**



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[http://www.google.co.in/imgres?imgurl=http://behance.vo.llnwd.net/e2/99/img/posts/c3/5549\\_share\\_ideas\\_mih.jpg&imgrefurl=http://the99percent.com/tips/5549/share-to-make-ideas-happen&usg=\\_\\_5GKXokq53ncHRt-ADIUFJLp7zkw=&h=429&w=572&sz=101&hl=en&start=17&zoom=1&tbnid=E6YrgNRQxuMrIM:&tbnh=101&tbnw=134&prev=/images%3Fq%3Dideas%26hl%3Den%26biw%3D1362%26bih%3D553%26gbv%3D2%26tbs%3Disch:1&itbs=1](http://www.google.co.in/imgres?imgurl=http://behance.vo.llnwd.net/e2/99/img/posts/c3/5549_share_ideas_mih.jpg&imgrefurl=http://the99percent.com/tips/5549/share-to-make-ideas-happen&usg=__5GKXokq53ncHRt-ADIUFJLp7zkw=&h=429&w=572&sz=101&hl=en&start=17&zoom=1&tbnid=E6YrgNRQxuMrIM:&tbnh=101&tbnw=134&prev=/images%3Fq%3Dideas%26hl%3Den%26biw%3D1362%26bih%3D553%26gbv%3D2%26tbs%3Disch:1&itbs=1)

Ideas attract new entrepreneurs. They seek capital for implementing the ideas. This enables the formation of a firm who act as a team. The firm competes in the market. The firm earns profit. This leads to competition because other firms are also attracted to earn profits. Competition destroys the old idea and therefore new ideas arise.

**Figure 9.5: Business Competition Chain**



Here, the role of the entrepreneur is to conceive a business idea in terms of an innovation to be brought successfully to the market and to find the wherewithal to make this happen. The entrepreneur does not necessarily need to have the design, production or delivery skills (this is the function of the firm) or to shoulder all or most of the risk (this is often assumed by the providers of finance or investors). Indeed, the notion of the entrepreneur as a risk-taking trader began to be challenged early on by the view of the entrepreneur as an adventurous self-employed manager capable of combining, to personal advantage, capital and labour.

It would be wrong to state that the element of risk-bearing has completely disappeared from the modern concept of the entrepreneur. The successful management of risk is an important entrepreneurial attribute. However, it does seem true that a swift perception of opportunities and the ability to coordinate the activities of others emerge as the more central economic skills of the modern entrepreneur.

Austrian economist Joseph Schumpeter (1934), who has had a seminal influence on entrepreneurship, as well as innovation, placed the entrepreneur at the centre of his theory of economic development. Schumpeter defined the entrepreneur simply as someone who acts as an agent of change by bringing into existence a 'new combination of the means of production'. New combinations include process, product and organizational innovations. The means of production includes capital, equipment, premises, raw materials, labour and, in recent times, information. Currently, knowledge has been added to the list as the indispensable ingredient for business success in the new millennium.

The essence of Schumpeter's approach is that entrepreneurs are competitive and always strive to gain an edge over their competitors. When they begin to consolidate and slow down, they revert to being ordinary managers and, in Schumpeter's terms, are no longer entrepreneurial. Thus attitudes to growth and the actual attainment of growth are essential elements of the concept of entrepreneurship.

This implies that entrepreneurial firms that innovate successfully and encourage new innovations are likely to be different from most other firms. They appear to be more open and supportive of different opinions and ideas. If you are developing your own idea as part of an organization or if you feel that your idea will need the combined efforts of a firm for its implementation you need to develop and negotiate support both inside and outside the firm. The art of negotiation is a key entrepreneurial skill.

When faced with very real resource constraints, maintaining motivation to set up and run such a firm can be very tough. The main motivation for entrepreneurs to overcome the barriers of economic pressure and uncertainty, according to Schumpeter (who was writing in the 1930s), were the prospects of upward social mobility into the capitalist class. At the start of the 21st century, with the almost universal dominance of market-based economic systems and a hugely increased middle class, the need to cope with the direct and indirect threats of 'globalization' is now often cited as the spur to innovation. For others, economic survival or the chance to create something of value is the driving motivators. Whatever the personal ambitions of entrepreneurial small firm owners, their role in introducing innovations and in improving overall economic development and efficiency is important.

<b>Value addition 9.3.2: Activity</b>
<b>Conceive a New Business Idea</b>
Conceive a business idea. Now consider the ideal firm for bringing your idea to market (or if your idea has not yet crystallized, an enterprising group or firm of at least two other people you know). Prepare a note about the purpose of the firm and the team that would be required to set-up such a business. Compare your proposal with those of your friends.

<b>Value addition 9.3.3: Check Your Comprehension</b>									
<b>9.3 Economic Functions of the Entrepreneur</b>									
<ol style="list-style-type: none"> <li>Can you list five keywords from this section?</li> <li>Referring to the characteristics of the business competition chain, sort these words in the proper sequence: Capital, Entrepreneurs, compete, seek, enable, market, and attract, firm, profit, new ideas.</li> </ol>									
<b>Pick the option that best suits.</b>									
<b>This section...</b>									
<table border="1"> <tr> <td><b>Completely understood</b></td> <td><b>Partially Understood</b></td> <td><b>Not understood</b></td> </tr> <tr> <td style="text-align: center;">↓</td> <td style="text-align: center;">↓</td> <td style="text-align: center;">↓</td> </tr> <tr> <td><b>Move on to next section</b></td> <td><b>Move on to next section but note that you need to revise this.</b></td> <td><b>You need to re read this and discuss it with your batch mates.</b></td> </tr> </table>	<b>Completely understood</b>	<b>Partially Understood</b>	<b>Not understood</b>	↓	↓	↓	<b>Move on to next section</b>	<b>Move on to next section but note that you need to revise this.</b>	<b>You need to re read this and discuss it with your batch mates.</b>
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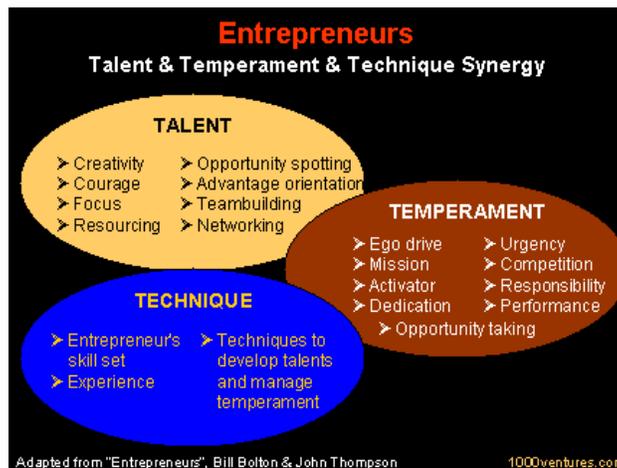
<b>Value addition 9.3.4: Test Yourself</b>
<b>9.3 Economic Functions of the Entrepreneur</b>
1. Analyze the functions of an entrepreneur.

## 9.4 Entrepreneurial Qualities

<b>Value addition 9.4.1: Focus of the Section</b>
<b>9.4 Entrepreneurial Qualities</b>
<p>Entrepreneurship reflects complex interactions between the individual and the situation, which has to be dynamic because business situations are always changing. Perceptions and judgment are, therefore, key elements in this process. Entrepreneurial behavior is guided by the entrepreneur's expectations rather than a rigid set of strategic objectives (again, it may be that the entrepreneur's expectations are more realistic and, maybe, more ambitious than those of other business managers). The process is not static but very dynamic with feedback and signals from the market consciously and indirectly affecting later decisions and actions.</p> <p>The purpose of this section is to make you identify personal attributes that enable best use of entrepreneurial opportunities.</p>

A lot of research in this field has focused on finding the characteristics that set entrepreneurs and their firms apart from others. Elizabeth Chell, a social psychologist, has examined numerous psychological trait-based approaches and concluded that, whilst psychological aspects such as 'entrepreneurial intention' and the 'ability to recognize opportunities' are strongly linked to entrepreneurial behavior, the context in which the entrepreneur operates is also very important.

**Figure 9.6 Qualities of an Entrepreneur**



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Entrepreneurship reflects complex interactions between the individual and the situation, which has to be dynamic because business situations are always changing. Perceptions and judgment are, therefore, key elements in this process. Indeed, more than 20 years ago, Mark Casson (1982) identified 'judgment' as one of the qualities that distinguishes the successful entrepreneur from the much larger group of non-entrepreneurial SME owners. Business judgment can reflect an innate ability but most frequently it directly derives from experience (or, more accurately, learning from experience).

However, past experience can also filter out our ability to spot new opportunities or threats. Cultural effects related to family, locality and friends can help us interpret the world but they can also colour what we see. The same may be true of the influences from various networks that business owners often belong to - ranging from business associations such as Chambers of Commerce, business clubs and so on, to more social links related to, say, sport or leisure activities.

Entrepreneurial behavior is guided by the entrepreneur's expectations rather than a rigid set of strategic objectives (again, it may be that the entrepreneur's expectations are more realistic and, maybe, more ambitious than those of other business managers). The process is not static but very dynamic with feedback and signals from the market consciously and indirectly affecting later decisions and actions.

The following box gives you a list of entrepreneurial qualities or the behavior expected of an entrepreneur.

#### **Behavioral characteristics of entrepreneurs**

- drive and energy
- self-confidence
- high initiative and personal responsibility
- internal locus of control
- tolerance of ambiguity
- low fear of failure
- moderate risk taking
- long-term involvement
- money as a measure not merely an end
- use of feedback
- continuous pragmatic problem solving
- use of resources
- self-imposed standards
- clear goal setting.

<b>Value addition 9.4.2: Check Your Comprehension</b>		
<b>9.4 Entrepreneurial Qualities</b>		
<ol style="list-style-type: none"> <li>1. Name at least three entrepreneurial qualities that you have studied above.</li> <li>2. Think of qualities that you possess. How many attribute do you have? Assess whether you can become an entrepreneur.</li> <li>3. Try to prioritize the qualities as per your understanding of entrepreneurship. Accordingly, do you think you will be successful as an entrepreneur?</li> </ol>		
<b>Pick the option that best suits.</b>		
<b>This section...</b>		
<b>Completely understood</b>	<b>Partially Understood</b>	<b>Not understood</b>
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<b>Value addition 9.4.3: Test Yourself</b>		
<b>9.4 Entrepreneurial Qualities</b>		
<ol style="list-style-type: none"> <li>1. What do you understand by the new business environment? What kind of opportunities does it offer to do business?</li> <li>2. Give any 5 keywords that would give the summary of this chapter.</li> <li>3. Enumerate any five entrepreneurial qualities.</li> </ol>		

## 9.5 Entrepreneurship

<b>Value addition 9.5.1: Focus of the Section</b>		
<b>9.5 Entrepreneurship</b>		
<p>This section apprises you with the fact that entrepreneurship is a creative activity. It is the ability to create and build something from practically nothing. The purpose of this section is to enable you to visualize the process of setting up and managing a business enterprise.</p>		

Entrepreneurship can be described as a process of action an entrepreneur undertakes to establish his enterprise.

Entrepreneurship is a creative activity. It is the ability to create and build something from practically nothing. It is a knack of sensing opportunity where others see chaos, contradiction and confusion. Entrepreneurship is the attitude of mind to seek opportunities, take calculated risks and derive benefits by setting up a venture. It comprises of numerous activities involved in conception, creation and running an enterprise.

According to Peter Drucker, Entrepreneurship is defined as 'a systematic innovation, which consists in the purposeful and organized search for changes, and it is the systematic analysis of the opportunities such changes might offer for economic and social innovation.'

Entrepreneurship is a discipline with a knowledge base theory. It is an outcome of complex socio-economic, psychological, technological, legal and other factors. It is a dynamic and risky process. It involves a fusion of capital, technology and human talent. Entrepreneurship is equally applicable to big and small businesses, to

economic and non-economic activities. Different entrepreneurs might have some common traits but all of them will have some different and unique features. If we just concentrate on the entrepreneurs then there will be as many models as there are ventures and we will not be able to predict or plan, how and where, and when these entrepreneurs will start their ventures.

Entrepreneurship is a process. It is not a combination of some stray incidents. It is the purposeful and organized search for change, conducted after systematic analysis of opportunities in the environment. Entrepreneurship is a philosophy- it is the way one thinks, one acts and therefore it can exist in any situation be it business or government or in the field of education, science and technology or poverty alleviation or any others.

It is felt that few entrepreneurs would possess all traits but felt that strengths in one might compensate for weaknesses in others. Many of these characteristics are self-explanatory (such as high personal drive and energy, self-confidence and setting clear goals) and some appear to be linked. Others may be less obvious or well-known, such as money and profits being used as a measure of success compared with others but less as an end in itself. Helping you to develop the last quality in the list, the ability to set clear goals, is the ultimate objective of this unit.

<p><b>Value addition 9.5.2: Did You Know?</b></p> <p><b>The Dance of Entrepreneurship</b></p> <p>There are broadly three phases of entrepreneurship</p> <ol style="list-style-type: none"> <li>1. The Beginning</li> <li>2. The Journey</li> <li>3. The New Beginning ( Yes, It's Not the Destination )</li> </ol>
<p><b>1. The Beginning</b></p> <p>The five elements for the beginning phase are:</p> <ol style="list-style-type: none"> <li><b>1. Purpose:</b> Knowing why you are in this will help you keep going when the going gets tough</li> <li><b>2. Passion:</b> Doing what you love will make it feel like you are not working</li> <li><b>3. People:</b> Building together with the right people will make it look easy</li> <li><b>4. Problem:</b> Solving a real problem will help as people will pay to solve a real problem.</li> <li><b>5. Plan:</b> Having a plan even when you know that it's going to change along the way</li> </ol>
<p><b>2. The Journey</b></p> <p>The five elements of the journey</p>

- 1. Patience:** Everything takes longer and costs more. Patience is a MUST
- 2. Persistence:** Sticking to the course of action even in the face of difficulty
- 3. Perseverance:** Sticking to your beliefs even in the face of no successful outcome
- 4. Pain:** Ability to handle the "pains" of entrepreneurship along the way
- 5. Politics:** Knowing how to navigate in the sea of politics. You may not want to play politics but surely you should know how to survive and thrive in the politics that already exists

Last phase is what I call the "New Beginning." I purposely did not call it the destination because rarely I see entrepreneurship "ends" with something – it's usually a stepping stone to begin something new.

**3. The New Beginning**

So, here are the five elements of the new beginning

- 1. Pride:** The satisfaction that comes with taking a concept to a completion
- 2. Profits:** If executed well, there is money to be made. There are also profits in terms of personal growth and fulfillment.
- 3. Power:** Since nine out of ten companies go out of business, if you are part of the one that succeeds, you automatically have more power.
- 4. Possibilities:** New possibilities open up as you have more credibility
- 5. Philanthropy:** You can make a bigger difference to the world as you have extra capacity.

Source: <http://www.activegarage.com/the-dance-of-entrepreneurship>

**Value addition 9.5.3: Check Your Comprehension**

**9.5 Entrepreneurship**

- 1. "Entrepreneurship is a process." Explain.
- 2. Do you think creativity is a prerequisite in order to be an entrepreneur?

**Pick the option that best suits.**

**This section...**

Completely understood	Partially Understood	Not understood
↓	↓	↓
Move on to next section	Move on to next section but note that you need to revise this.	You need to re read this and discuss it with your batch mates.

**Value addition 9.5.4: Test Yourself**

**9.5 Entrepreneurship**

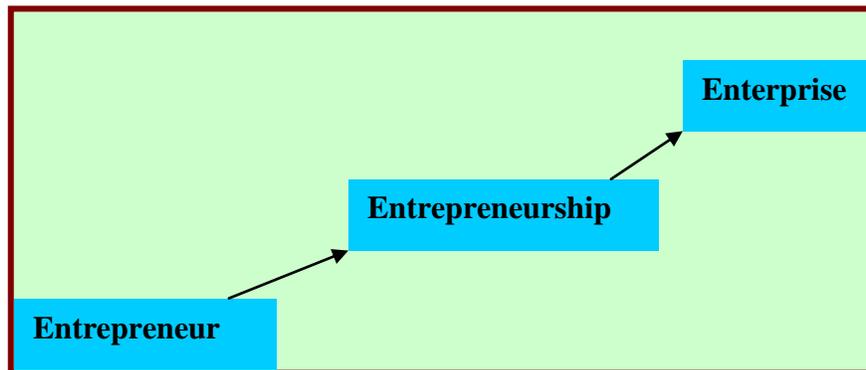
- 1. Critically comment on entrepreneurial qualities and entrepreneurship.

## 9.6 Setting-up Business Enterprise

<b>Value addition 9.6.1: Focus of the Section</b>
<b>9.6 Setting-up Business Enterprise</b>
This section describes that the process of setting up a business is preceded by the decision to choose entrepreneurship as a career and identification of promising business ideas upon a careful examination of the entrepreneurial opportunities. It also suggests that generation of ideas is not enough; the business ideas must stand the scrutiny from techno-economic, financial and legal perspectives. The purpose of this section is to enable you to identify the steps in setting-up business enterprise.

A business enterprise is an economic institution engaged in the production and/or distribution of goods and services in order to earn profits and acquire wealth. It includes a large number of activities which may be classified into two broad categories i.e. Industry and Commerce. Production of goods is the domain of 'Industry' and distribution comes under 'Commerce'. Every entrepreneur aims at starting a business and building it into a successful enterprise.

**Figure 9.7 Relationship between Entrepreneur, Entrepreneurship and Enterprise**



The process of setting up a business is preceded by the decision to choose entrepreneurship as a career and identification of promising business ideas upon a careful examination of the entrepreneurial opportunities. Generation of ideas is not enough; the business ideas must stand the scrutiny from techno-economic, financial and legal perspectives. Therefore the process of setting-up a business enterprise consists of three steps as is depicted in the figure above.

The whole process of starting a business begins with idea generation. You should prepare a business plan that will serve as the road map for effective venturing, whether you may require institutional funding (in which case it is necessary to do so) or not. Setting up of new business enterprises is a very challenging task; you are likely to encounter many problems *en route*. It's advisable to be aware of these problems as to forewarn means to fore arm!

A good business plan is the key to setting up a successful business. Once an idea is identified, the entrepreneur faces various challenges while implementing the plan. There are a number of important decisions for setting-up a new business.

<b>Value addition 9.6.2: Did You Know?</b>
<b>Important Decisions for Setting up a Business Enterprise</b>
Some of the important decisions that are to be taken by an entrepreneur before setting up a business enterprise are listed below: <ol style="list-style-type: none"><li>1. Opportunity scouting and idea generation</li><li>2. Making a product choice</li><li>3. Determining market and other feasibility</li><li>4. Creating a Business Plan</li><li>5. Setting up Infrastructure</li><li>6. Naming and Registering a Business</li><li>7. Choosing a form of Business Organization</li><li>8. Choosing the Location of the Industry</li><li>9. Pricing your Product</li><li>10. Meeting the Regulatory Requirements</li><li>11. Financing a start up Business</li><li>12. Sourcing Process, Raw Materials, Machineries and Equipments</li><li>13. Hiring Human Resource</li></ol>

#### *Opportunity scouting and idea generation*

An entrepreneur must develop sensitivity to changes around him, which can provide business opportunities and then carefully scan his environment to generate ideas. After the initial screening of the ideas that do not seem promising *prima facie*, you should conduct an in-depth examination of the chosen three-four before settling for the one where you would like to exert your time, money and energies. It is extremely important to take utmost care in identifying the product or service to be launched by the entrepreneur otherwise it might prove to a very costly mistake. We shall visit more of this in the next chapter.

#### *Making a Product Choice*

After choosing the form of the business organization the next start up problem is the choice of the particular product or service to be manufactured by the firm. It is an important decision because rest of the challenges of setting up a business is based on the type of the product the firm wants to produce. This decision can be taken through a comparative analysis of the several products or services that the firm can provide.

#### *Determining market and other feasibility*

Feasibility literally means whether some idea will work or not. It is knowing before hand whether there exists a sizeable market for the proposed product/service, what would be the investment requirements and where to get the funding from, whether and wherefrom the necessary technical know-how to convert the idea into a tangible product may be available, and so on. In other words, feasibility study involves an examination of the operations, financial, HR and marketing aspects of a business on *ex ante* (Before the venture comes into existence) basis.

#### *Creating a Business Plan*

Every new venture should have a business plan. A business plan is the formal written expression of the entrepreneurial vision, describing the strategy and operations of the proposed venture. The business plan also goes by other names, depending on its intended audience. Presented to a banker, it may be called a "loan proposal." A venture capital group might call it the "venture plan" or "investment prospectus."

#### *Setting up Infrastructure*

A new business enterprise after deciding upon the location of the industry needs to set up the basic infrastructural facilities for commencing its operations. It includes, purchasing the land for the construction of the industry. The site must be well connected to the nearest transport network i.e. rail, road or port. Besides, the availability of the basic amenities like, water, power supply is equally essential. Also, setting up of a good telecom facility for the industry is necessary for the growth and expansion of the business.

#### *Choosing a form of Business Organization*

A business enterprise can be owned and organized in several forms. Each form of organization has its own merits and demerits. The ultimate choice of the form of business depends upon the balancing of the advantages and disadvantages of the various forms of business. The right choice of the form of the business is very crucial because it determines the power, control, risk and responsibility of the entrepreneur as well as the division of profits and losses.

#### *Choosing the Location of the Industry*

Every entrepreneur is faced with the problem of deciding the location for his/her factory or plant. Location of the business is the most important factor influencing its success or failure. It is a long-term decision which should take into consideration not only the present requirements of the organization but also its future expansion plans. Errors in location may be very difficult and expensive to rectify. Location of a plant has a bearing on the layout of machinery and equipment as well as on the process of production. The objective of a locational plan is to find out the optimum or best location for the particular plant.

#### *Pricing your Product*

Fixing the right price for a product is the most difficult task as it affects the volume of sales of the product of the firm as well as the profits of the firm. Although non-price factors have become more important in recent decades, price remains one of the important elements in determining the market share and profitability. Prices are set by a firm by taking into consideration factors like costs, profit targets, competition and perceived value of products.

#### *Regulatory Requirements*

Once an entrepreneur has taken all the important decisions relating to starting a business, he/she has to take into account the basic regulatory requirements which are to be followed for setting up the organization. The most important regulation is the Companies Act, 1956, which regulates all the affairs of a company. It contains provisions relating to: formation of a company, powers and responsibilities of the

directors and managers, raising of capital, holding company meetings, maintenance and audit of company accounts, powers of inspection and investigation of company affairs, reconstruction and amalgamation of a company and even winding up of a company.

#### *Financing a Start up Business*

One needs money to make money. Finance is the lifeline of business. A business firm requires finance to commence its operations, to continue its operations and for its expansion and growth. There must be continuous flow of funds in and out of business. Sound plans, efficient production and marketing are all dependent on smooth flow of finance. Hence, a financial plan needs to be prepared, which indicates the requirements of finance, sources for raising the finance and the application of funds.

#### *Sourcing Process, Raw Materials, Machineries and Equipments*

Once the firm has decided on the foremost issues of which product it wants to produce and the location of the industry, the next important step is to select appropriate technology and equipment to produce the same. In addition to this, the source of raw material has to be decided upon. The requirements of all these can either be met through domestic sources or can be imported subject to the regulatory requirements of the Government.

#### *Hiring Human Resource*

Human Resource is also an important determinant of business location and functioning. Factors such as the availability of labour of different skill levels, productivity and cost of labour, flexibility of labour, attitude and behavior patterns of labour, nature of trade unionism etc. are important to a business. The whole process begins with the task of hiring manpower for starting a business for filling the present and prospective vacancies in the company. The objective of hiring manpower is to procure the right number of employees, with the required qualifications to do the right type of jobs. The hiring process involves four main steps i.e. manpower planning, recruitment, selection and placement.

<b>Value addition 9.6.3: Did You Know?</b>
<b>Common Mistakes while Setting up a Business Enterprise</b>
<ul style="list-style-type: none"> <li>• Poor or inadequate market research</li> <li>• Weak financial planning</li> <li>• Setting sights too high</li> <li>• Taking your eye off the competition</li> <li>• Poor supplier and customer controls</li> <li>• Poor stock and asset management</li> <li>• Hiring the wrong people</li> </ul>

<b>Value addition 9.6.4: Check Your Comprehension</b>			
<b>9.6 Setting-up Business Enterprise</b>			
<ol style="list-style-type: none"> <li>1. Give three key words related to the section studied.</li> <li>2. What do you mean by opportunity scouting?</li> </ol>			
<b>Pick the option that best suits. This section...</b>			
<table border="1" style="width: 100%;"> <tr> <td style="width: 33%;"><b>Completely understood</b></td> <td style="width: 33%;"><b>Partially Understood</b></td> <td style="width: 33%;"><b>Not understood</b></td> </tr> </table>	<b>Completely understood</b>	<b>Partially Understood</b>	<b>Not understood</b>
<b>Completely understood</b>	<b>Partially Understood</b>	<b>Not understood</b>	

↓	↓	↓
<b>Move on to next section</b>	<b>Move on to next section but note that you need to revise this.</b>	<b>You need to re read this and discuss it with your batch mates.</b>

<b>Value addition 9.6.5: Test Yourself</b>
<b>9.6 Setting-up Business Enterprise</b>
<ol style="list-style-type: none"> <li>1. Briefly discuss the steps involved in setting-up a business.</li> <li>2. List three mistakes commonly made in the process of setting up a business.</li> </ol>

<b>Value addition 9.6.6: Key Words</b>
<b>Summary</b>
<a href="#"><u>One who exploits successful ideas</u></a>
<a href="#"><u>Generating surplus</u></a>
<a href="#"><u>Full time employment in one's own occupation</u></a>
<a href="#"><u>Diversification and growth of initial venture</u></a>

## Summary

- An entrepreneur may be defined in different ways: as a person makes decisions, uses resources and admits risk; or as an economic agent who unites all means of production; or as an innovator who brings in new products or services; or as one who converts a source into a resource; or as one who imitates technologies innovated by others and finally as one who has an internal locus of control.
- The entrepreneurial process consists of three stages: income generation, self-employment and entrepreneurship.
- The entrepreneur performs the function of conceiving ideas, seeking capital for their implementation, forming a team and competing in the market to earn a profit.
- Entrepreneurship is also described in different ways as: a creative activity; as an attitude of mind to seek opportunities and take risks; as a discipline with a knowledge base theory; as a process; as a philosophy and as an existence of an entrepreneur possessing specific traits.
- The process of setting up a business begins with writing a business plan choosing a product, setting up infrastructure, getting the business registered, choosing a form of business organisation and its location, pricing the product, meeting the regulatory requirements, financing the start up of business, sourcing process materials and equipments and finally ends with hiring human resource.

## **Exercises**

### **Short Questions**

- 9.1 Define the term entrepreneur and differentiate it from entrepreneurship.
- 9.2 List the qualities expected of an entrepreneur in order to set up an enterprise.
- 9.3 What do you mean by entrepreneurship?
- 9.4 Briefly explain the economic functions of an entrepreneur.

### **Long Questions**

- 9.5 Distinguish between wage employment and entrepreneurship.
- 9.6 What do you understand by the "Entrepreneurial Process"?
- 9.7 Explain the steps in setting up a business.

## Glossary

**Arbitrage:** The practice of taking advantage of a price difference between two or more markets.

**Chambers of Commerce:** A local organization of businesses whose goal is to further the interests of businesses.

**Knowledge base theory:** Considers knowledge as the most strategically significant resource of a firm since knowledge-based resources are usually difficult to imitate and socially complex.

**Management of risk:** Identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the possibility and impact of unfortunate events or to maximize the realization of opportunities.

**Opportunity scouting:** Identifying an opportunity and evaluating it thoroughly on various grounds.

**Organizational innovations:** Refer to new ways work can be organized, and accomplished within an organization to encourage and promote competitive advantage.

**Upward social mobility:** A change in a person's social status resulting in that person receiving a higher position in their status system.

## References

### 1. Work Cited:

- <http://www.mcsgroup.com/images/WhatIsSAPImg.JPG>

### 2. Suggested Readings:

- Basu, "Business Organisation and Management", Tata McGraw Hill, New Delhi.
- Gupta, C.B., "Modern Business Organisation", Mayur paper Backs, New Delhi.
- Lele, R.K. and J.P. Mahajan, "Business Organisation", Pitamber Publishing, New Delhi.

### 3. Web Links:

9.1: Visit this URL <http://www.businessknowhow.com/> to know about how to set-up a business.

9.2: Search the net and find out the experiences of entrepreneurs who have set-up business.