

# ENTREPRENEURSHIP DEVELOPMENT

BBA - 602

## BLOCK 1: INTRODUCTION TO ENTREPRENEURSHIP

**Dr. Babasaheb Ambedkar Open University  
Ahmedabad**





“

*Education is something  
which ought to be  
brought within  
the reach of every one.*

”

- Dr. B. R. Ambedkar



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**ENTREPRENEURSHIP DEVELOPMENT**

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**BLOCK 1 : INTRODUCTION TO ENTREPRENEURSHIP**

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Unit-1      Concept of Entrepreneurship

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## **ROLE OF SELF INSTRUCTIONAL MATERIAL IN DISTANCE LEARNING**

The need to plan effective instruction is imperative for a successful distance teaching repertoire. This is due to the fact that the instructional designer, the tutor, the author (s) and the student are often separated by distance and may never meet in person. This is an increasingly common scenario in distance education instruction. As much as possible, teaching by distance should stimulate the student's intellectual involvement and contain all the necessary learning instructional activities that are capable of guiding the student through the course objectives. Therefore, the course / self-instructional material are completely equipped with everything that the syllabus prescribes.

To ensure effective instruction, a number of instructional design ideas are used and these help students to acquire knowledge, intellectual skills, motor skills and necessary attitudinal changes. In this respect, students' assessment and course evaluation are incorporated in the text.

The nature of instructional activities used in distance education self-instructional materials depends on the domain of learning that they reinforce in the text, that is, the cognitive, psychomotor and affective. These are further interpreted in the acquisition of knowledge, intellectual skills and motor skills. Students may be encouraged to gain, apply and communicate (orally or in writing) the knowledge acquired. Intellectual-skills objectives may be met by designing instructions that make use of students' prior knowledge and experiences in the discourse as the foundation on which newly acquired knowledge is built.

The provision of exercises in the form of assignments, projects and tutorial feedback is necessary. Instructional activities that teach motor skills need to be graphically demonstrated and the correct practices provided during tutorials. Instructional activities for inculcating change in attitude and behavior should create interest and demonstrate need and benefits gained by adopting the required change. Information on the adoption and procedures for practice of new attitudes may then be introduced.

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# **UNIT-1 CONCEPT OF ENTREPRENEURSHIP**

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## **Learning Objectives**

After reading this unit, you will be able to:

- Explain Concepts of Entrepreneurship Development
- Discuss the Economists' View, Sociologists View and Psychologists View towards Entrepreneurship
- Explore New Global Concepts of Entrepreneur

## **Structure**

- 1.1 Introduction
- 1.2 Concepts of Entrepreneurship Development
- 1.3 Economists' View
- 1.4 Sociologists View
- 1.5 Psychologists View
- 1.6 New Global Concepts of Entrepreneur
- 1.7 Self Assessment Test
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## **1.1 Introduction**

An Entrepreneur is an interesting but challenging subject for study. He is a catalyst of development; with him we prosper, without him we are poor. Many research studies have been done on this subject. Theoretical studies have tried to identify antecedents that make an entrepreneur. Empirical investigations have probed into his success or otherwise. However, hardly any study has developed criteria to measure his development and correlate it with his antecedents. The present study purports to fill the void by investigation of entrepreneurship.

### **Objectives of the Study**

- To study economic, social, educational and occupational background of the entrepreneurs.
- To assess the development of the entrepreneurs on the basis of inter- disciplinary criteria.
- To correlate performance of the entrepreneurs with their antecedents.
- To suggest measures for strengthening the flow of the entrepreneurs and improving chances of success.

## **1.2 Concepts of Entrepreneurship Development**

### **1. Early French Thinking**

In France, in the 16th century, a leader of the military expedition was termed as an entrepreneur. Around 1700 A.D. the term was used for architects and contractors of public works. Quesnay recognized a rich farmer as an entrepreneur who manages and makes his business profitable by his intelligence and wealth. Turgot differentiated ownership of capital as a separate economic function in business. For Richard Cantillon, anybody engaged in economic activity was an entrepreneur. To J.B.Say the entrepreneur was a person endowed with the qualities of judgment, perseverance and knowledge of the world as well as of business. Thus, in course of time the French tradition regarded an entrepreneur as a person translating a profitable idea into a productive activity. However, he was regarded as one of the four factors of production but not the first and foremost. Because of its emphasis on assembling of productive facilities and bearing risk the concept was regarded as static.

### **2. Early British Thinking**

British economists, on the other hand, assumed the framework of perfect competition. All units of a

product being identical and supply being always equal to demand, the organizer of the productive activity was considered no more a risk taker but just a capitalist. This provided no scope for entrepreneurial activity and no word, as J.S. Mill lamented, to personify entrepreneur was found in British literature. Nassau Senior, classifying factors of production in a new way, tried to break through, but could not succeed much. The classical economists made no distinction between income from ownership and income from management and regarded returns accruing to the capitalist employer as profit. This neglect of distinction between entrepreneur and capitalist was more than an analytical oversight. Risk-bearing and coordination part was totally neglected. The Younger Mill rightly separated the two, regarding profit as the reward of entrepreneur. But, neo-classical economists, specifically Marshall, reaffirmed profit as a single undifferentiated income flow, relegating entrepreneurship to management which is a specific variety of skill.

Strangely enough, Marx recognized pure type of entrepreneurial return – a return that accrues to a businessman when he introduces novel improvements. It is a product of certain specific historical conjecture and of social inequality and therefore cannot claim to have any social functionality. He is a contradictory product of a contradictory society. Marx regarded entrepreneur as a social parasite.

### **3. Early American Thinking**

The revolutionary transformation in business structure brought to the surface inadequacies of the then prevailing economic explanation of the term entrepreneur. Francis

Walker distinguished functions of an entrepreneur from those of a capitalist and maintained that profit was not synonymous with interest. J.B. Clark stated that entrepreneurial profits directly depended upon “successful introduction into the economic process technological, commercial and organizational improvements”.

A sharp exposure to the ‘Entrepreneur’ is found in the writings of Joseph A. Schumpeter. The introduction of a new good, of a new method of production, the opening of a new market, the conquest of a new source of supply of raw material or half manufactured goods and the carrying out of the new organization of the industry are the changes introduced by an entrepreneur. Rather, one who introduces these changes, called ‘innovations’, is an entrepreneur. Introduction of such innovations disrupts the economy and takes it to a higher level. Economic development is self – propelling since the beginning. “The carrying out of new combinations we call ‘enterprise’ and the

individual whose function it is to carry them out we call ‘entrepreneur’.

Schumpeter’s concept of entrepreneur was superior and realistic. It imbibed initiative, authority and foresight of the person relegating his image as a risk-bearer. Till Schumpeter’s time entrepreneur was a personality superimposed on the frame of economic activity. It was Schumpeter who treated entrepreneur as an integral part of economic growth.

#### **4. Advanced Thinking**

Arthur H. Cole, considering innovation as a purposeful activity stated “Entrepreneurial activity proceeds in relationship to the situation internal to the unit itself, to the social group that really constitutes the unit and to the economic, political and social circumstances – institutions, practices and ideas which surround the unit.

Though references to social climate being conducive to entrepreneurial innovations are found in Schumpeter, it was Max Weber who discussed social aspects of entrepreneurship. He maintained that the driving entrepreneurial energies were generated by exogenously supplied religious belief.

David McClelland shifted the focus from socio economic factors to socio- psychological factors. “Achievement Motivation” (need for Achievement– N-ach in short) was the most distinguishing feature of an entrepreneurial personality. In developed countries people were evaluated in terms of achieved status rather than in terms of ‘ascribed statuses. ‘N-ach’ was traced to child-rearing practices and to have a significant positive correlation with economic growth.

E.E. Hagen put forth a personality theory to show that, people, who had enjoyed social standing at some stage in their histories, fall into a ‘retreatist’ phase and with an urge to regain that lost status emerge as entrepreneurial personality. Hagen calls this ‘Law of Subordinate Group’.

Thomas Cochran tried to theories that entrepreneurs were a model personality in the society. They represented certain ascertainable levels of education, social status and types of cultural conditioning that produced roughly definable modal personality. The individual’s performance as a businessman is influenced by three factors: his own attitude towards occupation, the role expectations held by sanctioning groups and the operational requirements of the job. Society’s values are the most important determinants of the two factors.

Frank Young’s theory of supply of entrepreneurship was a group theory. A group of sub-group

experiencing low status recognition or denial of access to important social network and being in possession of a greater range of institutional resources than other groups in the society becomes reactive to improve its symbolic position.

John H. Kunkel's was a behaviourist model. Individuals perform various activities of which some are accepted by the society while others are not. The accepted are rewarded.

The rewards act a reinforcing stimulus increasing the probability of repeating that behaviour pattern. This pattern of social behaviour is entrepreneurial behaviour.

Bert Hoselitz maintained that marginal men or groups enjoy an ambiguous culture and social position having no bondage of tradition to inhibit them from thrashing an intruder path could make adjustments in situations of change and become good entrepreneurs.

As scientific organizational knowledge came to be systematically applied to industrial activity, the average size of the firm grew considerably. Consequently, individual entrepreneur has been increasingly replaced by a body of decision-makers whom Galbraith calls 'technocrats'. With a giant-like structure of the firm, the study of organization got importance.

Alexander has rightly remarked, "Although this material has contributed to an increased understanding of an entrepreneur and his activities in different areas, no single conceptual framework, no one unifying theme has emerged". Entrepreneur is a human being living social and psychological goals. Therefore, unless a theory of entrepreneurship is woven into sociological and psychological it cannot give sense of economic web.

## **5. African Countries**

Harris and Rowe have enumerated the following factors causing impediments to entrepreneurial development in Africa, difference between social world in which an African entrepreneur lived and economic world in which he had to operate, undeveloped, uninstitutionalized ways of gaining knowledge, recruiting skills and borrowing money; absence of commercial experience, lack of inter-regional mobility, oligopolistic market conditions, shortage of viable projects, absence of business environment, management deficiency resulting into low level of capacity utilization, poor standard of financial management and little potential to innovate. Development of contacts breaking the vicious circle of isolation and widening the horizon of experience can foster entrepreneurship in African countries.

## **6. Greece**

A.P. Alexander noted, the reforms introduced by Kemal Ataturk withdrew prestige and status of some groups of people in Greek society. These groups with lost status were attracted to new opportunities. This proved Hagen's theory with one limitation; the time lapsed between loss of respect and rise of entrepreneurship was not as long as that considered necessary by the theory. The situation in Greek society proved Papanek's conclusion that economic incentives were enough to attract ambitious persons to entrepreneurial class.

## **7. France**

French entrepreneur was conservative, security-minded, valuing independence in preference to growth, cautious, thrifty and Calvinist.

## **8. Mexico**

A revolution in Mexico drove landlords off the land depriving them of wealth and status. Obeying Hagenian Law of Subordinate Group they embraced the industrial vocation as did lower samurai in Japan in Tokugawa regime.

## **9. Indonesia**

Entrepreneurship developed on the islands where the impact of Dutch destruction of entrepreneurial motives was not deep or long standing. Higgins noted that Balians had a group focused image of change while the Javanese had an ego focused image of change.

## **10. Japan**

Hirschmeier and Zasuo Noda described Japanese entrepreneur as 'community centred'. Gustav Ramis stated "Somewhere between the Schumpeterian auto centred entrepreneur and the caricature of government officials lies the community centred entrepreneur. Koza Yamamura did not agree with this. Revolutionary reforms introduced by Meiji emperor them, obeying Hagenian Law of Subordinate Group, provided economic leadership in entrepreneurial garb. Strong sense of discipline inherited from feudal period, loyalty, public-mindedness and national unity coupled with high degree of diligence and intelligence made the Japanese entrepreneur distinguishable from others.

## **11. Pakistan**

Zafar Arafat noted that decentralization of management practices, dispersal of location, family support, competitive practices, dispersal of location, family support, competitive spirit and change in motive from profit to patriotism and independence accounted for the success of the entrepreneurs.

## **12. India**

According to V.R. Gaikwad and R.N. Tripathy, bold, dashing and pragmatic personality, managerial competence, high motivation, dominant socio-economic power enjoyed by the family and contacts at higher social and governmental level, lead to entrepreneurial development.

According to M.U. Deshpande, political system was responsible for dormancy of entrepreneurship. Financial help from family and father's occupational status were significantly related to entry. Industrial entrepreneurship was a result of collective ambitions and aspirations of the family. As V. Louis put it, earlier jobs in a similar unit prepared individuals for independence venture.

A.P. Upadhye found that success of entrepreneur was due to incentives offered by development agencies, family upbringing from particular caste and craft, proving attention to financial function and formal education.

The analytical description of the entrepreneur in this section presents before us the personality of a functionary. The working definition of 'entrepreneur' accepted for this study is that of Yale Brozen with slight modification. Entrepreneur is a person or a group of persons who, having perceived opportunity to manufacture a product, endeavours to establish an organization through which he develops his idea into tangible products in response o changing market conditions, demands of the buyers and technology. In doing so, he grows with the organization.

H.N. Pathak maintained that interplay of factors like favourable, timely and appropriate government policies and quick adaptability by the enterprises are responsible for all-round growth of entrepreneurial talent.

Respect for an individual, continued opportunity for advancement and open door policy by Raunog Singh was the factors that helped development of entrepreneurship in that group.

R.A. Sharma notices two streams in entrepreneurial growth. In the familiar spheres, the

entrepreneurship was dispersed among various spheres and in other sphere it was thinly spread among socially well-known communities. Strong desire to do something independent in life, technical knowledge and/or manufacturing experience, financial assistance from institutional sources, business experience in the same or related lines, accommodation in industrial estates and heavy demand are the factors that induced the new and small entrepreneurial class. The emerging new entrepreneurial class was more open than old.

### 1.3 Economists' View

In economic analysis entrepreneurial functions are supposed to be directed to materialistic objective of maximization though its foundations may be high order as spiritual, patriotic, social, psychological or ethnic. Entrepreneurial activity is a form-giving activity giving form to the wishes of the society, to ideas to the efforts of the factors and to the raw material is processed through.

J.B. Say states that, to rationally combine the forces of production into a new producing organization is the function of the entrepreneur. J.S. Mill lists superintendence, control and direction as entrepreneurial functions.

- **Superintendence:** to assemble the means, turn out maximum cost and to supervise the work.
- **Control:** the flow of goods, use of finance, utilization of machinery and the activities of the subordinates.
- **Direction:** the entrepreneur is a goal-oriented person; he has to keep organization constantly on the path of his objective. His is an activity of producing in present what future will demand. Mill emphasizes managerial and administrative functions. The entrepreneur's is an activity of producing in present what future will demand. Mill emphasizes managerial and administrative functions. Organization and superintendence are major functions of an entrepreneur according to Marshall. Organization building capacity is most critical skill expected of an entrepreneur. He assigns to the entrepreneur the functions of risk-bearing, innovation and management. An entrepreneur is an uncertainty-bearer buying at fixed price and selling at an uncertain one.

Kirzener viewed the entrepreneur as a disequilibrating force. It is the alertness to unnoticed opportunities which creates a tendency of the ever circular flow of equilibrium. According to



Harvey Leibenstein, “Entrepreneur is an individual or group of individuals with four major characteristics. He connects different markets; he is capable of making market deficiencies (gap-filling); he is input completer and he creates or expands time-binding, input-transforming entities (firms).”

To Schumpeter, innovation is the sole function of an entrepreneur. It covers the introduction of a new good, a new method of production, a new market, a new source of supply of raw materials or half-manufactured goods and a new organization of any industry for creation of a monopoly position or revolutionizes the pattern of production.

B.F Hoselitz reports, “The primary function of entrepreneurship is the investment of time, capital and energy in economically significant pursuits; the emphasis is on decision- making in its various aspects. Harbinson enumerates four functions; the undertaking or managing of risks and handling of economic uncertainty; planning and innovation; coordinating, administration and control, routine supervision. Ability to build organization is, perhaps, Harbinson adds, the most precious of all entrepreneurial skills, Redlich’s threefold division of functions is 1. Capitalist – employing the factors and buying raw material, setting up the organization; 2. Managerial innovation, supervision and coordination of productive activities; 3. Entrepreneurial – decision making. Benjamin Higgins lists seeing opportunities for introduction of new techniques, new products and exploitation of new resources and organizing factors of production into an enterprise to take advantage of these opportunities as essential for economic development.

#### **1.4 Sociologists View**

Sociologists consider the entrepreneur as a role performer corresponding to the role expected by the society. Wishes of the society are exhibited through customs and taboo, rewards and restrains, ethnic values and child-rearing practices, nationalist’s attitude and patriotic inculcations and protestant ethic. He is conditioned by the social milieu to which he belongs.

According to Peter Marris, to assemble or reassemble from what is available, very concrete kind of imagination, to see what others have missed, sensitivity to business and social environment, zest in industrial development and entrepreneurial courage are the factors that make an entrepreneur.

According to Flavia Derossi, coordination at every stage – inception, maintenance and expansion is the function of an entrepreneur. She feels an entrepreneur needs two qualities:

- Optimistic outlook that there is a possibility of change, the environment can be mastered and he himself can introduce the required change. He finds difficulties challenging and stimulating; he thrives on them.
- In a sphere as dynamic as industry, new problems are seized upon as opportunities of testing one's own capabilities

### **1.5 Psychologists View**

Among psychologists, Frank Young described entrepreneur as a change-agent. K.L. Sharma maintains that entrepreneurs are men who exhibit qualities of leadership in solving persistent professional problem; but those persons likewise demonstrate eagerness to seize unusual opportunities. They have a business gambler's itch.

T.V. Rao and Udai Pareek describe entrepreneurship as a creative and innovative response to environment. The entrepreneur is goal oriented rather than means oriented. He must not have only a high capacity of risk-taking but must also have high capacity of risk-sustaining which is a function of high confidence

In sum, the foregoing description of the functions of an entrepreneur presents the profile of a functionary. Economic point of view presents him as perceiver of otherwise unnoticed opportunity organization builder, adapter of new profitable activity and beneficiary thereof. Sociological analysis presents him to be a personality moulded by various practices of social enforcement and values imbibed in him. Psychologically entrepreneurship is a vigorous application of the person's energies towards the goals cherished for long.

### **1.6 New Global Concepts of Entrepreneur**

America's capacity for innovation cannot be increased without the vigorous efforts of our higher education system. Except for a few outstanding universities like Stanford and MIT, traditional students don't believe in university programs as a means of entrepreneurial growth. They are constantly shown images of successful entrepreneurs forgoing college and learning their life lessons on the "streets".

Universities and private colleges provide a tremendous opportunity for young people to flex their

entrepreneurial muscle. In many cases, higher education provides a second chance. Students can overcome socioeconomic impediments that can diminish their career options. They can rehabilitate lack lustre high school performance and develop reputations for hard work.

Entrepreneurs succeed in large part due to the size of their strategic networks. Their knowledge, both tacit and explicit, is required to get the ball rolling on a new venture. But, it is the mentor and peer relationships which protect them from dissipating too much energy in the start-up phase and position them for sustainable success. Students involved in campus entrepreneurship programs have a decided competitive advantage in this regard.

The former CEO of Microsoft, Bill Gates, asked the following question of Linked In members, “How can we do more to encourage young people to pursue careers in science and technology?” After some discussions, we would suggest improving the context of science and technology in the media. Imagine NBC’s Las Vegas meets Sci-Fi’s Eureka.

Context is like the neighbourhood that bright ideas are raised in. The mainstream media often portrays entrepreneurs as bores with no social skills. They also tend to tuck them away in less than inviting environments. Most of the time, they are stuck in basements or out in garages away from normal people.

Young people have aspirations. They like entrepreneurship. They don’t like uncertainty unless it’s cool. Mainstream media never shows how exciting it is to work at start-ups or for technology companies. If the technology incumbents did a better job of marketing to kids in America, then young people might take a chance on something as risky as science and technology careers.

## **1.6 Self Assessment Test**

- 1 Explain the concept of entrepreneurship in development.
- 2 What is the economist view about the entrepreneurial functions?
- 3 What is the sociologist’s view of entrepreneurial role?
- 4 What is the psychologist’s view of entrepreneurial role?
- 5 Explain the new global concepts of entrepreneur.

## **1.7 Further Reading**



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## BLOCK 2: THE ENTREPRENEURIAL DEVELOPMENT PERSPECTIVE

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**ENTREPRENEURSHIP DEVELOPMENT**

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**BLOCK 2 : THE ENTREPRENEURIAL DEVELOPMENT PERSPECTIVE**

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Unit-1          Concept of Entrepreneurial Development

Unit-2          Attribute and Characteristics of a Successful Entrepreneur

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# **UNIT-1 CONCEPT OF ENTREPRENEURIAL DEVELOPMENT**

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## **Learning Objectives**

- Explain the Concept of Entrepreneurship Development
- State the evolution of the concept of Entrepreneur
- Discuss Attributes and Characteristics of a Successful Entrepreneur

## **Structure**

- 1.1 Introduction
- 1.2 Concept of Entrepreneurship Development
  - 1.2.1 Evolution of the concept of Entrepreneur
  - 1.2.2 Entrepreneur vs. Intrapreneur
  - 1.2.3 Entrepreneur vs. Entrepreneurship
  - 1.2.4 Entrepreneur vs. Manager
- 1.3 Self Assessment Test
- 1.4 Further Reading

## 1.1 Introduction

Entrepreneurs and entrepreneurship are vital components of economic development. While entrepreneurs have been active in society for centuries, the concept of entrepreneurship and the study of this concept have been resurgence in recent years, especially with the advent of new technologies that have given rise to entirely new businesses and business models.

The purpose of this chapter is to study the concept of Entrepreneurship and to understand how entrepreneurs have been perceived through history. This study will give an insight into the development of entrepreneurship itself and will aid in understanding the challenges faced by the modern entrepreneur. In general, everyone understands that an entrepreneur is one who initiates and runs a business, creating a system that fulfils a need of society. The system consists of men, materials, machinery and money and produces goods or services to fulfil a specific need identified in society. However, a study of how the term Entrepreneur has evolved through the ages will bring about an understanding of how the concept of business itself has evolved through history.

## 1.2 Concept of Entrepreneurship Development

Entrepreneurship is a concept that has undergone several revisions through history. In the modern context, Entrepreneurship is seen differently by different entities. For e.g. sociologists and psychologists see the term differently from economists, since these two entities focus on different aspects of entrepreneurship.

Economists focus on “the impact of entrepreneur’s actions on the economy”. Sociologists and Psychologists focus on “why entrepreneurs act the way they do?”

Management experts and students of management focus on “how entrepreneurs act?”

Given the above, it is easy to see why there is no unified concept or understanding of entrepreneurship and of entrepreneurs. However, a glance at some of the definitions of entrepreneurship will bring us closer to understanding the concept and how it varies from entity to entity. This covered in the following section.

### 1.2.1 Evolution of The Concept of Entrepreneur

The word “Entrepreneur” is a French word, literally meaning “go-between”. Thus, the term implies an agent or intermediary who establishes himself between seekers and providers with the intension of making profit. However, the term has progressed far beyond its literal meaning and today encompasses concepts like risk-taking, innovation, management of resources organization of the tools of trade, etc. The following table traces the development of the term Entrepreneur and Entrepreneurship through history.

**Table 1.1: Development of the Concept of Entrepreneurship**

Time	Definition of ‘Entrepreneur’
Middle Ages	Person in charge of large scale projects
17th Century	Person bearing the risk of loss in large, fixed-price contracts with the government

1725	Person bearing risks, as opposed to person supplying capital (Richard Cantillon)
1803	Person enjoying the profits of entrepreneurship, as opposed to person enjoying the profits of supplying capital (Jean Baptiste Say)
1876	Person who receives profits from managerial capabilities as opposed to person who receives interest from capital supplied (Francis Walker)
1934	Innovator who develops untried technology (Joseph Schumpeter)
1961	Energetic, moderate risk taker (David McClelland)
1964	Person who maximizes opportunities (Peter Drucker)
1975	Person who takes initiative organizes some social and economic mechanisms and accepts risks of failure (Albert Shapero)
1985	Person who creates something different with value by devoting the necessary time and effort, assuming the accompanying financial, psychological and social risks and receiving the resulting rewards of monetary and personal satisfaction (Robert Hesrich)

From the above table it is apparent that the terms “Entrepreneurship” have undergone several revisions in understanding, evolving from simply a person in charge of large scale projects in the middle Ages, to the creation of value by the judicious use of intelligence and resources. Let us study the term in the light of definitions provided by various experts through the ages.

### **Definitions**

A person who pays a certain price for a product to result in an uncertain price thereby making decisions about obtaining and using resources while assuming the risk of enterprise... (Richard Cantillon)

An individual who forms an organization for commercial purpose. He is a proprietary capitalist, a supplier of capital and at the same time a manager who intervenes between the labour and the consumer. (Adam Smith)

A change agent who transform resources into useful goods and services, thus creating the circumstances lending to economic growth (Carl Manger)

One who seeks to reform or revolutionize the pattern of production by exploiting an innovation or an untried technological possibility for producing a new commodity or producing an old one in a new way by opening up a new source of supply of material or a new outlet of products. (Joseph Schumpeter)

One, who always searches for change, responds to it and exploits it as an opportunity. (Peter Drucker)

(Entrepreneurship is) A dynamic process of creating incremental wealth (Robert Ronstand)

An individual who bears the risk of operating a business in the face of uncertainty about future conditions (Encyclopaedia Britannica)

The above definitions enable us to form a general profile of an entrepreneur. In general, an entrepreneur is someone who:

- Spots a new business opportunity or a new need and brings resources together to supply that need or
- Finds a new way of bringing resources together to refine an existing product
- Faces an uncertain business climate
- Takes the risk of operating within that uncertain climate and
- Seeks to make profits from his business activity

Thus, an entrepreneur is unwilling to work for someone else. He is a person who prefers to work for himself. He is a person of foresight, spotting needs and opportunities that others have not seen. He is a manager of resources, bringing together the resources needed to fulfil the need has spotted. In some cases, he may find a different use for an existing product and thus increase demand for that product. An entrepreneur has faith in his ideas and is willing to take the risk of loss in fulfilling the need that he has spotted. He does all of these things with the intension of making a profit.

### 1.2.2 Entrepreneur Vs. Intrapreneur

An “Intrapreneur” is a person who comes up with new product ideas, new processes, new markets, etc. within the context of an existing organization. He is thus an employee, who does not wish to strike out on his own, but is provided with the space to peruse his ideas within a large corporation. Sometimes, corporations support such intrapreneurs and even encourage them to run their own business with capital and other resources from the parent company. Xerox Corporation is one company that encourages Intrapreneurship. The corporation has setup Xerox Technology Ventures (XTV) for the purpose of generating profits by investing in promising technologies of the company. A prime example of the success of this venture is that of Quad Mark, which was set up by an existing employee of Xerox Corporation, with help and support from XTV and Tawans Advanced Scientific Corporation. Quad Mark was set up by Dennis Stemmler, an employee of Xerox, with venture capital provided by Xerox and Advanced Scientific Corporation. 20% of Quad Mark is owned by Stemmler, thus giving him the incentive to take the technology to the limit in the hope of making profits. The following table (Table 1.2) shows the difference between an Entrepreneur and Intrapreneur based on various parameters:

**Table 1.2: Difference between Entrepreneurs an Intrapreneur**

Parameter	Entrepreneur	Intrapreneur
Primary Motive	Independence, creative opportunity and economic profit	Independence and ability to reap corporate rewards



Activity	Direct involvement in all areas of the business	Direct involvement in major areas, with delegation in other areas
Risk taking	Moderate to high risk taker	Low to moderate risk taker
Attitude towards failure and mistakes	Takes full responsibility and tries to correct mistakes and overcome failure	Hides risky projects from view until they are ready
Decisions	Takes all decisions to follow his dream	Persuades company in which he works to finance his dream
Family background	Comes from a family with a history of entrepreneur or small business. May even come from a farming background	Comes from a family where both, entrepreneurs and salaried persons have equal status
Relationship with others	Basis of relationship with others is transactions and deal making, defining his own hierarchy	Relates to others within the existing hierarchy

Thus, an entrepreneur is generally more of a risk taker than an entrepreneur. He believes in making all the decisions and defines how his business is to be run. He refuses to work within a given hierarchy, preferring to define the hierarchy himself. The entrepreneur, on the other hand, has faith in his idea, but is not so much of a risk taker. He prefers to develop his idea within the framework of a given hierarchy, accepting a lower return or lower profit in exchange for greater stability.

The advantage an entrepreneur has is that he can call upon existing resources within the company to develop his idea. He is also at lower risk, since the capital is provided by the company he works for. Thus, his ideas stand a better chance of seeing the light of day and he also has the benefit of greater resources from the parent company. In addition, if he is working for a well-known company that supports his venture, he is more likely to be accepted by clients and customers, making marketing easier.

We can look at entrepreneurship from two angles: as an environment within a company or as a set of attribute of a person. Let us examine these angles in some detail.

### **As an environment within a company**

An organization can consciously foster entrepreneurship. However, some companies are more in a position to develop entrepreneurship than others. Characteristics of such companies are:

- They operate on the frontiers of technology.
- They encourage new ideas.
- They encourage trial and error.
- They allow failure.

- They do not try to place any parameters on opportunities.
- They make resources available to all.
- They have a multidisciplinary team based approach.
- They have a long time horizon for product.
- They have an appropriate volunteer program.
- They have an appropriate reward system.
- They provide sponsorship and mentorship.
- Top management supports entrepreneurship.

### **Entrepreneurship as a set of attributes or characteristics of a person**

Some individuals are more entrepreneurial than others. Characteristics of entrepreneurs are:

- An understanding of the environment
- Vision
- Flexibility
- Team player
- Encouraging free and frank discussion
- Ability to garner the support of management, colleagues and subordinates
- Persistence

### **1.2.3 Entrepreneur Vs. Entrepreneurship**

#### **Entrepreneur**

An entrepreneur is a person with specific business, managerial and personal skills. An entrepreneur exhibits behaviour which includes:

- Taking initiative
- Ability and desire to recognize social and economic mechanism to enable production
- Acceptance of risk of failure

Thus, the entrepreneur is a person with specific characteristics, who brings together certain resources to combine them into a product with a higher value than its components. These resources include capital, labour, materials and other assets. Psychologically, the entrepreneur is driven by a need to obtain or attain something. He is willing to experiment, eager to accomplish and intolerant of authority. He is a pragmatic risk taker, who bears risks, not for thrill but as a necessary condition of achieving his goal. He is usually 'street-smart', able to work within existing social system and turning them to his advantage. He is also strong willed and committed to his goals.

#### **Entrepreneurship**

Entrepreneurship is the dynamic process of creating incremental wealth. It is the process of creating something new and assuming the risks and rewards that result from that process. Thus, entrepreneurship denotes an atmosphere or culture within which entrepreneurs can develop. It is a combination of the economic, cultural and social climate, which can either encourage or stifle creativity and risk taking, thus either encouraging or extinguishing the entrepreneurial spirit.

Entrepreneurship consists of the following:

- The creation of something new, which has value for the producer and the audience (customer, client)
- The ability and willingness to spend time, effort and money in the creation of the value mentioned above
- The ability and willingness to assume the risk in terms of finance face the fortune if things go wrong.

#### 1.2.4 Entrepreneur Vs. Manager

Entrepreneur must have managerial skills; every manager cannot be an entrepreneur. Entrepreneurship, therefore, encompasses management is a subset of entrepreneurship. We can understand the difference between an entrepreneur and a manager by applying the same parameters we used to study entrepreneurs and entrepreneurs, as the following table (Table shows).

**Table 1.3: Difference between Entrepreneurs and Manager**

Parameter	Entrepreneur	Manager
Primary Motive	Independence, creative opportunity and economic profit	Promotion and other traditional corporate rewards such as increments, power and control over staff etc.
Activity	Direct involvement in all areas of the business	Delegates and supervises rather than gates directly involved. Does not consider aspects of the business that are outside his job definition
Risk taking	Moderate to high risk taker	Low risk taker
Attitude towards failure and mistakes	Takes full responsibility and tries to correct mistakes and overcome failure	Tries to avoid mistakes and failure. May be cautious to the point of inaction if the risk is too high
Decisions	Takes all decisions to follow his dream	Agrees with company policy and those above him in the corporate hierarchy

Thus we see that the manager is more concerned with the maintenance of status quo, while the

entrepreneur is willing to upset the situation to create something new. The manager rarely takes risks, while the entrepreneur understands and accepts that risk is part of the process of fulfilling his dream. The manager welcomes authority, while the entrepreneur shuns it. The manager is comfortable in a hierarchy, while the entrepreneur prefers a flatter organization structure.

### **1.3 Self Assessment Test**

- 1 Explain the evolution of the concept of entrepreneurship.
- 2 What are the different definitions of entrepreneurship?
- 3 Explain the difference between Entrepreneur and Entrepreneurship.

### **1.4 Further Reading**

1. Entrepreneurship Development in India, Sami Uddin, Mittal Publications, 1989, ISBN, 8170991900, 9788170991908
- 1 Entrepreneurship Development in public Enterprises, Joseph Prokopenko, Igor Pavlin, International Labour Office, 1991 ISBN-10: 922107286X ISBN-13: 978-9221072867
- 2 Entrepreneurship Development, S. Anil Kumar, New Age International, 2003, ISBN:

## **UNIT-2 ATTRIBUTE AND CHARACTERISTICS OF A SUCCESSFUL ENTREPRENEUR**

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### **Learning Objectives**

- Discuss Attributes and Characteristics of a Successful Entrepreneur
- Enumerate the Values of successful entrepreneurs
- Give a Checklist for individuals who want to become Entrepreneurs

### **Structure**

#### **2.1 Attributes and Characteristics of a Successful Entrepreneur**

2.1.1 Values of Successful Entrepreneurs

2.1.2 Attitudes

2.1.3 Characteristics of Successful Entrepreneurs

2.1.4 Checklist for individuals who want to become Entrepreneurs

#### **2.2 Broad Functions of an Entrepreneur**

#### **2.3 Qualities of a True Entrepreneur**

#### **2.4 Forms of Business Organization**

#### **2.5 Choice of Proper Forms of Organization**

2.5.1 Sole Proprietorship

2.5.2 The Joint Hindu Family Firm

2.5.3 Partnership Organization

#### **2.6 Self Assessment Test**

#### **2.7 Further Reading**

## **2.1 Attributes and Characteristics of a Successful Entrepreneur**

While entrepreneurs can be found in a wide spectrum of businesses, cultures and economies, most successful entrepreneurs exhibit certain attributes and characteristics. The purpose of this section is to study these attributes and characteristics so as to reach an understanding of entrepreneur and the entrepreneurs and the entrepreneurial spirit.

Attributes and characteristics can be studied at different levels. The first subsets of attributes that we can study are Values. Values are generalized concepts of behaviour and thinking that are developed through culture, family background, schooling etc. Akhorie and Mishra outline the following values as most common among entrepreneurs.

### **2.1.1 Values of Successful Entrepreneurs**

#### **Innovativeness**

The entrepreneur is a creative individual, with a desire and ability to do new things. Entrepreneurs are not satisfied with following the herd. Even if an entrepreneur is to produce an existing product or service, he will do so in a new and innovative manner.

Entrepreneurs are different from inventors, in that inventors lack the drive to market their inventions to new markets. Entrepreneurs, on the other hand, recognized the value of new inventions and take efforts to bring those inventions to the marketplace. Entrepreneurs are thus “ideas men with workers hands”. In other words, they ideate, innovate and then put their ideas into action.

#### **Independence**

Entrepreneurs value their independence and strive to constantly be in control of their work environments. They are intolerant of control by others and tend to work out plans and strategies on their own rather than wait for input or suggestions from others. This does not mean they do not collaborate with others or seek their advice. They may take input from others, but ultimately will make their own decisions.

#### **Outstanding Performance**

Entrepreneurs want to be the best. They are not satisfied with merely doing what others do. They want to do it differently ideally; they want to do something entirely new for which they will be recognized.

Usually entrepreneurs believe in the existence of God or Supreme Being bestowed with a destiny by the Power. Entrepreneurs accept and build on past mistakes. They consider mistakes as just, another step in the ladder of success. Mistakes do not bog them down, but instead inspire them to rethink, rework and overcome the mistake.

#### **Respect For Work**

Entrepreneurs have a very strong work ethic. They are willing to do all it takes to get the job done and do not shirk from work of any kind. While executives too, put in long hours at work, entrepreneurs put in even longer hours and in fact, are “always on the job”. Their minds, their

thoughts, their actions, are all tuned towards achieving their final objective.

The next subset of attributes that can be studied is Attitude. Attitude denotes an approach to life and work, a ‘tendency’ to act and react in a particular way in different situations.

Akhori and Mishra have identified the following attitudes as closely linked to the entrepreneurial spirit.

### **2.1.2 Attitudes**

#### **Tendency to Take Moderate Risk**

Entrepreneurs take risk as an integral part of the process of achieving their goals. They do not take unnecessary risks purely for the thrill of taking risks. Even entrepreneurs who abandon all other avenues of income in the pursuit of their goals do so because they believe that there is no other way to achieve their goals. The risk is an aspect of the path to their goals and not a goal in itself.

#### **Perception of Economic Opportunity**

Entrepreneurs are quick to spot economic opportunity where others may see only problems or recreation. Entrepreneurs look for opportunities to turn their talents into cash and are thus attuned to seeking out the economic benefit in every sphere of activity in which they are involved.

#### **Imagination And Creativity**

Entrepreneurs display great imagination and creativity in solving problems. Unwilling to follow conventional wisdom, they seek their own solutions to problems. It is from this that their innovativeness springs.

#### **Initiative**

Entrepreneurs take the initiative in getting the job done. They do not wait for the “right circumstances” themselves. Proactive by nature, they prefer to anticipate events rather than wait for something to occur for them to react.

#### **Believe In Changing The Environment**

Entrepreneurs believe they can change the environment. If there are elements in the environment that the unfavourable to them, they believe they can change those elements, thus modifying the environment to suit them. This stems from a firm belief in themselves and their abilities.

#### **Enjoy Freedom of Expression And Action**

Entrepreneurs enjoy freedom of expression and revel in the ability to act for themselves. They do not like to accept instructions from others and value their independence. They are thus most likely to give up their job and begin a venture on their own.

#### **Gain Satisfaction From Completion of Tasks**

Entrepreneurs gain a deep satisfaction from seeing a job to completion. To them, the completion of a job signifies success and, being driven by a desire to succeed, they take immense pleasure in completing the job.

### **2.1.3 Characteristics of Successful Entrepreneurs**

Successful entrepreneurs have certain definite characteristics. It is important to study these characteristics with a view to understanding the behaviour of entrepreneurs.

#### **The Achievement Motive, As Opposed To Mere Competitiveness**

Entrepreneurs are motivated by a need to achieve. This leads to competitiveness, but competitiveness with a positive goal. If a person is merely competitive for the sake of running others down or showing his superiority, he generally does not achieve anything concrete. The entrepreneur, however, wants to achieve something, for which he simply uses competitiveness as a path towards that achievement.

#### **Perseverance**

Entrepreneurs have a “stick-to-it” attitude. They persevere in the face of hardships and setbacks, trying out different strategies until they succeed. Perseverance does not mean a foolhardy attempt to succeed by trying the same thing again and again. The prime example here is of Tomas Edison, who tried out hundreds of different materials for the filament of his incandescent lamp (light bulb) until he found the right material. Had he simply tried the same material a thousand times, he would not have succeeded. The perseverance lay in is determination to try out different materials, but with the same end purpose in mind. Similarly, entrepreneurs are willing to persevere towards their goal, trying out different paths until they find the right one.

#### **Moderate Risk Taking**

Entrepreneurs take risks because they have to, in order to achieve their goals. The taking of risks is a means to an end and not an end in itself. This is the difference between an entrepreneur and a gambler. The gambler has no other goal except the thrill he gets from taking the risk. The entrepreneur, on the other hand, knows that unless he takes some risk, he will not be able to achieve his goals.

#### **Use of Feedback**

The myth of the stubborn entrepreneur ignoring worldly advice is just that a myth. The real entrepreneur constantly takes feedback from others, often actively seeking feedback from peers and informed sources. They use this feedback to make whatever corrections are needed in the path to their goal. The entrepreneur who seeks feedback is different from the insecure individual who constantly needs encouragement to achieve something. The entrepreneur expects and makes use of negative feedback as well as positive feedback, evaluating both in terms of the source of the feedback, his own observations, etc. finally making his own decision.

#### **Readiness To Face Uncertainty**

The entrepreneur knows that he lives in an uncertain environment. He is ready to the uncertainties of the environment, in fact preferring these uncertainties to the income and security of a permanent job. This tolerance of ambiguity is vital for anyone who wishes to be an entrepreneur, for the safety and security of a job cannot foster the adventure that spurs the entrepreneur to achieve something new.



## **Personal Drive**

Entrepreneurs possess tremendous personal drive and are willing and able to work long hours. Entrepreneurs, in fact, are known to be able to work in spurts of several days with little sleep, without losing their energy and desire to achieve. They are characterized by high energy levels as well as the ability to keep cool in tense circumstances.

## **Self Confidence**

Entrepreneurs possess tremendous self-confidence. They believe in themselves and in their ability to achieve their goals. At the same time, they are not overconfident or arrogant. They have a firm faith in their ability to tackle any contingency, while at the same time possessing the pragmatism to call on others for help whenever required.

## **Initiative**

Entrepreneurs take the initiative in any enterprise. They are willing to put themselves in the forefront of operations, taking responsibility for the success or failure of the operation. This characteristic is manifest in several situations and is not confined to the business world. Entrepreneurs take the initiative in several of their personal and social situations as well.

## **Belief In Self**

It is distinct from self-confidence. "Belief in oneself" is the tendency to take personal responsibility for all the events in one's life. Entrepreneurs do not believe in fate, instead believing that they are in full control of their lives and are responsible for the successes and failures they face.

## **People Skills**

Although believers in themselves as architects of their own destiny, entrepreneurs know that they have to garner the co-operation and help of other people. They have a well developed set of people skills, ranging from persuasiveness to the ability to motivate others.

## **Flexibility**

Closely linked to perseverance is the characteristic of Flexibility, enabling an entrepreneur to change his path and style to suit circumstances, without losing sight of his goal. Flexibility, however, should not be confused with indecisiveness, where the person keeps changing his mind out of a feeling of insecurity.

## **Rational Approach**

Entrepreneurs do not get emotionally involved in their projects. When they need help, they are able to call on experts, regardless of whether they personally like them or not.

### **2.1.4 Checklist For Individuals Who Want To Become Entrepreneurs**

The following checklist, generated from empirical data, gives some idea of the general characteristics of entrepreneurs. There are, of course, exceptions to the list, but in general, entrepreneurs exhibit most of the characteristics listed below:

#### **An Entrepreneur is generally**

- **The oldest child in the family:** Perhaps the responsibility of caring for younger siblings or the time spent with parents in the absence of other children develops the independent streak in the entrepreneur.
- **Married:** Most entrepreneurs agree that their spouses provide vital emotional and practical support.
- **Male:** Without being gender-biased, evidence shows that most entrepreneurs are male. However, female entrepreneurs are now starting new ventures at two to three times the rate of men.
- One who starts his first significant venture in his thirties.
- A degree holder
- One whose primary motive is to be independent.
- One who reports a strong relationship with his father?
- One who describes himself as a “Doer” rather than a “Thinker”?
- One who takes moderate risk?
- One who doesn’t particularly stand out in a crowd?

## **Who is an Entrepreneur?**

### **Different views and perspectives about entrepreneur**

Entrepreneurs are made, not necessarily born.

A true entrepreneur is the one who has a genuine attitude to serve people. Again there are two kinds of entrepreneurs - entrepreneurs who create products for a common man and entrepreneurs who create products for business customers. The second type is usually done in universities or guys who have years of experience working in established companies.

Most importantly an entrepreneur has a certain vision. He has a certain perspective of what should be done and what should not be done. He believes what he perceives to be the truth around him to be the truth and he goes out to prove to the people what the truth is.

An entrepreneur has the ability to see symmetric patterns in haphazard market situations

An entrepreneur is someone who thinks he is smarter than the status quo wisdom of the market. Then he goes about outsmarting the market using the building blocks available in the market. When this outsmarting becomes sustainable, he is successful. When it becomes scalable then he is a runaway hit.

Entrepreneurship is about creating value. Entrepreneurship is all about identifying the problem and finding a solution before anybody else does. The timing of the solution is also very important.

Entrepreneurs work towards changing the status-quo for the better. It may involve making something (already existing) better or it may involve creating something from scratch.

Apple pioneered the Graphical User Interface, but it was Microsoft which took it to the next level. Hence, innovation, which is the hallmark of entrepreneurship, could be incremental in nature, not necessarily ground-breaking.

Capt. Gopinath who started Deccan Aviation is also an entrepreneur because he pioneered low-cost flying in India. This kind of business, though it existed elsewhere in the world, he took the initiative of bringing it to India.

You need not venture out on your own to be a successful entrepreneur, but your contribution can fetch better recognition if you have the guts to venture out on your own.

Narayana Murthy would not have been known as a successful entrepreneur if he had helped Patni (his job before Infosys) grow to be a multi-billion dollar company. The success of Google, Microsoft, IBM etc is because of a lot of entrepreneurs working for those organizations, but decided not to venture out on their own.

R Buckminster Fuller said, “Every child is born a genius—9,999 out of every 10,000 are swiftly, inadvertently, de-geniuses by grown-ups”. Albert Einstein agrees. Picasso said, “Every child is born an artist. The trick is to remain an artist.”

There’s a trend here. And the trend can easily be extended to entrepreneurship and innovation in technology. The growth in the Indian technology and services industry (IT and BPO) has created a strong “service-centric economy” built on the movement of jobs from overseas to an abundant, highly educated, English speaking labour force. India’s challenge doesn’t seem to be proving that the IT/BPO firms can win business or maintain clients. It is that India needs to shift from a service-based economy to an “innovation-based economy” and that’s very new to us. We’ve all talked about it and continue to talk about it. But why is it that Google, 8-year-old, with approximately 6,000 employees is worth \$128.36 billion and Infosys, India’s star, is 25-year-old, with approximately 53,000 employees and is worth

\$28.95 billion. If we total up all the major Indian IT and BPO firms, the market valuations of all of them combined would probably not come close to that of a Google oracle, SAP or Microsoft.

Every Indian is a born entrepreneur. Every Indian has it in them to innovate. Ask the person standing in line for a movie ticket if he’s thought of figuring a way to get a ticket faster if the line wasn’t moving fast enough. Or the driver who’s stuck in a traffic jam if he’s thought of using the opposite lane to make his way through. Every single day in every single life in our country, we have people who use innovative ways to “short circuit” a process that the rest of the world would follow without question. If that’s not innovation, what is? By definition, entrepreneurs in technology make a living out of “short circuiting” a process— something that the world was used to doing a certain way, they figure out how to do it in less time, with less resources or with better efficiency/accuracy.

The question is—if every one of us is a born entrepreneur and destined to innovate, what happens to the spark in us? And why is it that I believe we need to make more entrepreneurs? Simply, as Einstein and Buckminster Fuller and Picasso said—we are de- geniuses, we don’t remain artists— life takes over and teaches us to live lives of “competent mediocrities”.

In order for us to make more entrepreneurs, we need to focus on creating an environment where innovation thrives and entrepreneurship can be developed. This innovation environment will be the backbone of what will make India claim its position as the global IT superpower.

The solution is redefining entrepreneurship as a roles based (rather than process based) occupation. To that end, there are four roles common to all entrepreneurs and you basically know you're an entrepreneur when you find yourself doing these four roles. The point being is that the word "entrepreneur" has no meaning on its own. It's just shorthand for describing four very specific other jobs.

- **Role as an investor:** If you are weighing up risk/return profiles and doing due diligence to figure out if one venture is worth pursuing over another - you're an entrepreneur.
- **Founder ship:** If you've identified a problem and are using leverage to harness resources currently outside of your control to deliver an elegant solution to the problem- you're an entrepreneur.
- **CEO:** If you're thinking about risk management and how to prevent your start-up from screwing up - you're an entrepreneur.
- **Directorship:** If you're in board meetings trying to vote on strategic direction for your start up - you're an entrepreneur.

If you're not doing all of those four things - then you must be something else.

### **Broad Functions of an Entrepreneur**

We are now in a position to list the broad functions of an entrepreneur into the following three categories:

- Innovation
- Risk-taking
- Organization and management, including (a) planning of an enterprise; (b) coordination, administration and control; and (c) routine type of supervision.

Risk-bearing means provisions for capital in order to enable the entrepreneur to establish and run the enterprise. An important function of an entrepreneur is to reduce uncertainty in his plan of investment and expansion of the enterprise. Innovation means "doing the new things or the doing of things that are already being done in a new way". It includes new process of production, introduction of new products, creation of new markets, discovery of new and better source of raw materials and finally the creations of a better form of industrial organization. And organization basically implies bringing together the various factors of production. The purpose is to allocate the factor in order to minimize losses and reduce costs in production.

An entrepreneur performs any one or more of these functions at a particular time in an organization

Economists like Cotillion, J.B. Say and others stressed risk-taking as the specific function of an entrepreneur. Marshall recognized organization and management of the enterprise as the

important functions of an entrepreneur. According to Schumpeter the primary function of an entrepreneur was never a risk-bearer. While discussing it he stressed that thought the basic function of an entrepreneur was to innovate this function must always appear mixed up with other kinds of activity. He wrote: "Everyone is an entrepreneur only when he actually carries out new combinations and loses that character as soon as he has built up his business, when he settles down to running it as other people runs their business."

Arthur H. Cole described an entrepreneur as a decision maker and described the following functions of an entrepreneur; (a) The determination of those objectives of an enterprise and the change of those objectives as condition required or made advantageous; (b) The development of an organization including efficient relations with subordinates and all employees; (c) The securing of adequate financial resource the relations with existing and potential investors; (d) The requisition of efficient technological equipment and the revision of it as new machinery appeared ; (e)The development of a market for the products and the devising of new products to meet or anticipate consumer's demand ; (f) The maintenance of good relations with public authorities and with society at large.

Modern writers have emphasized all the three functions – innovation, risk-taking and organization. In the initial stage of the establishment of an enterprise one may have to bear, risk and manage innovate organize and take decision all by on self. He reduces uncertainty in his plan of investment, diversification of production and expansion of the enterprise. He even manages the day –to-day activities of the enterprise. He takes business decisions and works of a manager also. But as enterprise grows, entrepreneurs or group of entrepreneurs deal with more number of workers, more complex and technical problems and more complex relationship with suppliers, customers and government. Entrepreneurial functions are divided into a number of person specialized in their respective fields. Therefore, entrepreneurial functions are filled by a corporate body and not embodied in a single physical person. Every social environment has its own way of filling the entrepreneurial function. For instance if the department of agriculture of the government in many countries including India took steps in revolutionizing the agriculture methods it would be said to have acted as an entrepreneur.

When the organization is big and grows bigger entrepreneurs start making delegation of authorities to subordinate executives. Moreover, the net work of decision making becomes more complex. But regardless of these changes in the form and increase in the complexity of organization, the central functions of the entrepreneur remain the same. The entrepreneur determines alone without any managerial interference in what lines of business is to employ capital and how much is to be employed. He determines the expansion and contraction of the size of the total business and its various branches. There are essential decisions which are instrumental in the conduct of the business and entrepreneur are at the helm of affairs.

The entrepreneur is in essence an institution which comprises of all the people required to perform various function. The tasks of such people are not only to do with innovations, but also with understanding and implementing the adjustments that are required of the production units, when they expand on account of change in demand and in market conditions. They must do more than

merely adjust. They must foresee the opportunities that are inherent or when they arise in a given situation and at times they must be in a position even to make opportunities out of a given situation.

### **2.3 Qualities of a True Entrepreneur**

With the broad functions of an entrepreneur discussed in the preceding chapter (that of innovations, risk-bearing and organization and management) we may now discuss the main qualities of an entrepreneur. He should possess all such qualities with which he performs any or more of the functions. Besides, an entrepreneur plays an important role in the development of an economy. He must possess some important qualities which are of great importance to the country's rate of economic progress.

An entrepreneur should be one who bears, innovates or imitates and organizes the business. As successfully he performs such functions to the extent he justifies his existence. In an economy or in any situation he is expected to combine all factors of production in a manner as to maximize output at minimum cost of production. Whether he performs the various functions effectively is determined by the nature of quality control, cost reduction, improved labour relations, profit earning and the like. All this is possible if the entrepreneur is especially a talented person and he possesses the following main qualities in him:

- 1 Capacity to assume risk and possessing self-confidence ;
- 2 Technological knowledge, alertness to new opportunities, willingness to accept change and ability to imitate ;
- 3 Ability to Marshall resources ;
- 4 Ability of organization and administration.

#### **1. Capacity to assume risk and possessing self-confidence**

The entrepreneur assumes risk and he should have, therefore, self-confidence. He should be anxious to expand and have the willingness to tie up capital and wait for good returns. He is an innovator and also a financier having a dual capacity and he should be therefore, in search of quick and large profits ready to shift investments for better output and result. As an organizer, the entrepreneur guarantees wages to his employees and interest to those who have lent him capital and intense element of risk. Business game consists of great risks and rewards are also great when risks are successfully covered. The ability to perform services and the risks involved are inseparable. Therefore, for successful covering the risks, highest order of ability is required. A successful entrepreneur would be one who has tact, patience and sagacity, power of observation and wisdom and ability of discrimination. He should be mentally alert, gifted with discernment, practically wise, acute-minded and shrewd and an exceptionally intelligent person. He must be a good judge of human nature and must possess the qualities of leadership. With the spread of knowledge, the entrepreneurs are increasing both in India and in other developing countries.

#### **2. Technological knowledge, alertness to new opportunities, willingness to accept change and ability to imitate**

The entrepreneur should have a keen desire to change and adopt new technology. In order to become successful he should have perseverance to overcome obstruction, fear and variety of difficulties. He should have the capacity to pick and choose from a large number of associates and subordinates and should be able to wisely delegated authority. At the same time he should be able to wisely delegate authority. At the same time he should have the ability to inspire loyalty.

Technological change is the prime mover in the process of economic development. Historically, inventions and innovation have led the process of growth in advance countries. In underdeveloped countries the search of a new technology should be the prime objective of good entrepreneur. Their success depends to a great deal on their ability to adjust and adapt new conditions and newer technology. Technological knowledge consists of devising new good and new ways of producing existing goods and services. The entrepreneur must be interested in new goods and be prepared to attempt new ways of doing things. They should be interested in changing the pattern of production in the light of resources available to keeping in mind their competitive position in the market and also the quality of their produce. Any dynamic organization needs its ideal men, its creative thinkers and its people who could plan and change and initiate a productive process or a new product or explore a new market. They should be alert, flexible and able to adapt to changing conditions. Economic growth is a highly dynamic process. With the growth of industry and rise in income of the people, there is a growing demand of goods hitherto not in demand and here lies ability and capacity of the wise entrepreneur who could explore this new demand. They should be alert to new opportunities and willing to incur the necessary risk in exploiting the new situation.

An entrepreneur is interested in initiating and accepting changes. He is expected to discover new combinations involving new product, new methods of production, development of market and utilization of a new source of productive factors and a new form of organization. In underdeveloped countries there is a dearth of such men. People are not very enthusiastic because the economic environment is unhealthy and timed with uneconomic culture and age long traditions. In developed countries people accept the change as a way of life, which is not the condition in underdeveloped countries. And, that is why, in developed countries entrepreneur are in short supplies. Willing to accept change is a remarkable quality of a successful entrepreneur.

In underdeveloped countries entrepreneur should possess the ability of imitation. It is true that conditions in such countries are such that people are not prepared to take risk resulting from innovations, but they should be ready to take risk resulting from innovations, but they should be ready to take up such projects which involve less cost and risk as they are of imitating as against innovating character. They should be able to harmonies new ideas of different innovations to their own organization. Writing on the industrial revolution and industrial innovations, Meier and Baldwin mention: "Although the hope of profits was a major stimulant to innovation, there were also other prerequisites first, technical knowledge which could be utilized second, entrepreneur who recognized the opportunities and respond to them ; third, the ability to respond by having adequate finance for the introduction of new techniques. The increasing amount of inventive activity has already been considered, but the role of entrepreneurs and the role of finance now

require amplification.” The further write”: Schumpeter’s hero the ‘innovating entrepreneur’ played a central part in the rise of modern capitalism. The entrepreneur spirit of the entrepreneur is also emphasized by Somber, who interprets this spirit as a mental attitude that is dominated by the principles of acquisition, competition and economic rationality. Even though the natural environment of the eighteenth century was favourable to growth, there must also have been individuals who were willing to undertake the risks of innovating and who were prompt to do so by an attraction to money.”

### **3. Ability to Marshall Resources**

A true entrepreneur is one who has the ability to mobilize resources in the best possible manner for achieving the business objective. He should be one who is able to reduce the cost of production to the minimum without reducing the quality of the product. Harrison writes: “A dynamic organization needs its ideal men, its creative thinkers, its people who can plan and initiate changes. The organizational ability is probably the most critical skill needed for industrial development on a large scale. The organizational builder must be able to harness the new ideas of different innovators to the rest of the organization. He must be able to select and develop person who can properly manage and control a labour force. His task is to stimulate initiative and enthusiasm in the accomplishment of the objectives of the organization. He must be able to multiply himself by effectively delegating responsibilities to others. Indeed, the ability to build organization is perhaps the most precious of all entrepreneurial skills and thus those who can achieve success in this very critical area may be the ones who nearly fulfil the role of the true entrepreneur.

### **4. Ability of organization and administration**

The ability of building organization is one of the most critical skills needed for industrial development of a country. The organizer must be able to harvest the new ideas to the best in his organization. He must be able to select and develop persons who can properly manage the affairs. The entrepreneur must have the ability of selection, training and development of the persons composing the labour force. He must have confidence to provide sufficient incentive for work. He should have the ability to raise the productivity of labour. He should know the technique of scientific management. He requires the employment of specialized personnel and investment of time on the part of members of the line organization. Even more important, he requires high level of education, experience and training among the members of the managerial organization.

If we look towards the developed countries of the world we find them equipped with all kinds of technological skill and in possession of trained and talented entrepreneur. When we go through their historical growth we find that there is long list of entrepreneur who was instrumental in introducing new methods, new products and new markets new forms of industrial organization. Although such people were drawn from all strata, they formed a sociological group having common characteristics. They were men who valued business as a means and sign of achievement; they were people who appreciated the possibility of innovations and they were people who tried to overcome the resistances and obstacles standing in the way of doing new



things. Their motive was to increase profit and improve efficiency by reducing cost. They were the great figures of the industrial revolution in England, who earned their reputation as innovators and organizers. They fulfilled in one person the functions of capitalist, financier, manager, merchant and salesman.

A study of European entrepreneur in the nineteenth century at time of industrial revolution further reveals that a typical entrepreneur was found more self-centred than others. He believed in breaking-up the old traditions and establishing new traditions. Such an entrepreneur was found highly ambitious. He had the desire of establishing a kind of private kingdom, a dynasty. He had the will to conquer, the impulse to fight and succeed and a tendency to prove he superior to others.

A true entrepreneur, besides possessing functional qualities mentioned above, must possess the broad personality contours which help him in developing initiative and drive to accomplish such tasks which he decides from time to time. In the early period an economist like J.B Say observed that an entrepreneur must possess the following special qualities; he must have “judgment, perseverance and knowledge of the world as well as of business. He is called upon to estimate, with tolerable accuracy the importance of specific product, the probable amount of demand and the means of its production: at another, buy or order the raw material, collect labourers, find consumers and give at all times a rigid attention to order and economy, in a world, he must possess the art of superintendence and administration.”

In connection with a recent study of entrepreneurs, James J. Berna stressed the following qualities of a good entrepreneur.

- He is an enterprising individual. He is energetic, resourceful, alert to new opportunities, able to adjust to changing conditions and willing to assume risks involved in changes.
- He is interested in advancing technologically and in improving the quality of product.
- He is interested in expanding the scale of his operations and he reinvests to this end. James Berna further writes: “In the writer’s opinion, these are the basic criteria which must be used in evaluating entrepreneur’s performance in an under-developed country. They sum up, first of all, what is usually implied the phrase “spirit of enterprise”. It is difficult to conceive of a first-rate industrial entrepreneur who is not adaptable to change anxious to grow larger and improve technologically.”

### **Classification**

In a study of American agriculture, Clarence Danhof has classified entrepreneur in the following manner. This classification gives us an idea that, at the initial stage of development, entrepreneur has less initiative and drive and as development proceeds they become more innovating and enthusiastic. And similarly when entrepreneur are shy and humble the environment is underdeveloped and similarly when entrepreneurs are innovating, business environment becomes healthy and developed.

There are four categories of entrepreneurs

- Innovating entrepreneurs
- Imitating entrepreneurs
- Fabian entrepreneurs
- Drone entrepreneurs

**Innovating entrepreneurship** is characterized by aggressive assemblage of information and the analysis of result deriving from novel combinations of factors. Men in this group are generally aggressive in experimentation who exhibited celerity in putting attractive possibilities into practice. Such an entrepreneur is one who sees the opportunity for introducing a new technique or a new commodity or a new market. He may raise money to launch an enterprise, assemble the various factors, choose top managers and set organization that introduces new market and re-organizes the enterprise.

**Innovating entrepreneurs** are such who are very commonly found in developed countries. In underdeveloped countries, on the other hand, their number is very small. A country with little or no industrial tradition can hardly produce innovating entrepreneurs. Such entrepreneurs can work only when a certain level of development is already achieved and people look forward to change and progress.

**Imitative entrepreneurship** is characterized by readiness to adopt successful innovation inaugurated by innovating entrepreneurs. Imitative entrepreneurs are also revolutionary entrepreneurs with the difference that they do not innovate the changes themselves; they just imitate techniques and technology innovated by others. Such entrepreneurs are particularly important in underdeveloped countries because they contribute significantly to the development of such economies, such entrepreneurs are most suitable for the underdeveloped regions because in such countries people prefer to imitate the technology, knowledge and skill already available in more advanced countries.

**Fabian entrepreneurship** is characterized by very great caution and skepticism in practicing any changes. Such entrepreneurs have neither will to adopt new methods innovated by the most enterprising entrepreneurs. Such entrepreneurs are shy and lazy. Their dealing is determined by customs, religion tradition and past practices. They are not much interested in taking risk and they try to follow the footsteps of their predecessors.

**Drone entrepreneurship** is characterized by a refusal to adopt use opportunities to make changes in production. Such entrepreneurs may even suffer losses but they do not make changes in production methods.

The reason of the backwardness of the underdeveloped countries lies in the fact that they are deficient in innovating and imitating entrepreneur when they are found in abundance in developed countries. Men are needed who can imitate the technologies and products to the particular conditions prevailing in such countries. And at times there is need of changing and adjusting the new technologies to their special conditions. Such countries primarily need imitators who are responsible for transforming the system with the limited resources they

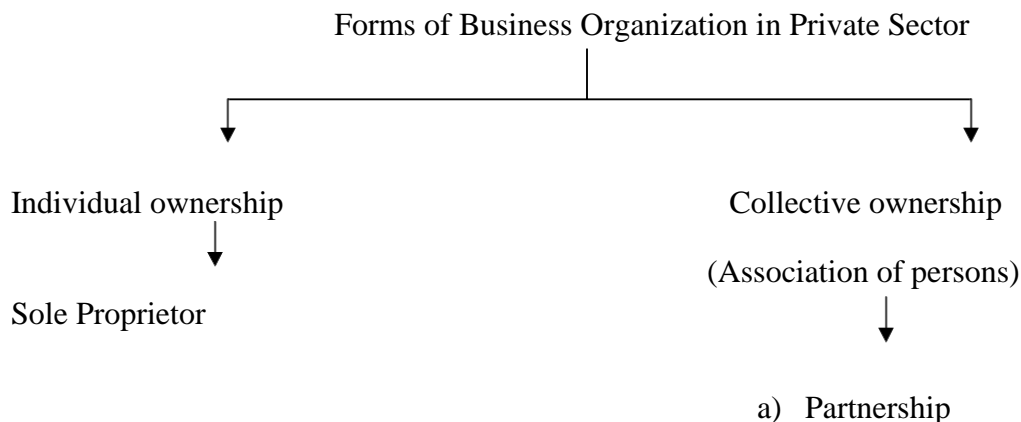
possess. James Berna writes:” The importance of these humbler entrepreneurs who “exploit possibilities as they present themselves and mostly on a small” must not be under-estimated. In the first place, such adaptation requires no mean ability. It often involves what has aptly been called “subjective innovation”, that is the ability to do things which have not been done before by the particular industrialist, even though, unknown to him, the problem may have been solved in the same way by others.” Speaking on the importance of imitating entrepreneur in underdeveloped countries, he further writes; “He is, perhaps rather pedestrian figure by western standards; an adaptor and imitator much more than a true innovator; a man who has much more in common with Marshall’s organizer of the factors of production than Schumpeter’s creative disturber...but in a poor country attempting to industrialize potent changes-producing figure nonetheless.”

## 2.4 Forms of Business Organization

The sole object with which all business concerns are started is to make profit by the use of capital, by the employment of labour, by utilizing materials and by producing or disposing of commodities. All these factors of production share the profits obtained by their joint efforts. Such a concern can be started either by one person or by a group of persons in the private sectors or by Government or other public bodies in the public sector. From this point of view, there are four main forms for a business unit. If only one person starts the business, we call that business sole proprietorship and group of persons start the business, that either partnership business or Joint Stock Company or co-operative form of organization. For business purposes, therefore, the chief forms of ownership organizations are:

- Individual or sole proprietorship
- Partnership
- Joint stock company
- Co-operative society

Besides, these Hindu Joint Families also undertake business in India, although this form is fast losing ground as a form of business organization. Also, these above forms of organization are used essentially for business firms in the private sector.



- b) Joint Stock Company
- c) Co-operative Society
- d) Joint Hindu Family

Though a business enterprise may be owned by the above forms of organization, usually one form is more suitable than others for the particular enterprise. The choice will depend upon the considerations such as the type of the product, capital requirement, State control, legal requirements, competitive conditions in the chosen industry level of taxation, ownership privileges and so on.

### **Ideal Form of Organization**

Before studying the features, merits and demerits of the various forms of organization, it is desirable to know some of the characteristics, which make for an ideal form of business organization. The characteristics of an ideal form of organization are found in varying degrees in different forms of organization. The businessman, while choosing the form of organization for his business, will have to decide the form of organization with reference to the following ideals.

- 1. Ease of Formation:** The entrepreneur must be in a position to establish the business without much difficulty and the formation process should not be time-consuming and should involve little expenses and minimum legal formalities.
- 2. Ease of Raising Capital:** If a concern requires a huge amount of capital, the preconditions necessary for attracting capital from the public are: (a) safety of investment (b) fair return on investment and (c) transferability of investment.
- 3. Limit to Liability:** The firm might be organized either on the principle of limited liability or unlimited liability. But from the point of view of risk, it is better to have limited liability. This means that the entrepreneur's liability is limited only up to the amount of capital agreed to be contributed by him whereas unlimited liability means the personal assets of the owner will be held liable for the debts of the business.
- 4. Direct Relationship between Ownership, Control and Management:** A good form of organization must also have a feature of associating the owner with the management of the firm. This means that the responsibility for management or control of management must be in the hands of owners. If the owners have no control in the management; the firm may not be organized efficiently.
- 5. Continuity of Stability:** Stability is necessary both from the point of view of the entrepreneur and society. Uninterrupted existence enables the entrepreneur to formulate long-term plans for the prosperity of the concern. From the point of view of society, the stability of the firm ensures continuous employment and uninterrupted supply of their economic needs.
- 6. Flexibility of Operation:** Flexibility and adaptability to the changes is another ideal of a good form of organization. Changes may take place either in the market conditions or in the condition of the supply of various factors of production. Sometimes, the State's policy

towards the industry may be changed or there may be a change in the management policies. The nature of organization should be such as to be in a position to adjust to the changes without much difficulty.

7. **Lighter Tax Liability:** All the forms of organization are subject to the levy of taxes by the State. But as taxes are levied on different basis, some forms of organization may liable for high rate of taxation while some others may be taxed at the low rate. Hence, other things being equal, the ideal form of organization is one which is liable to low rate of taxation.
8. **Freedom from State Regulation:** As the State has been evincing keen interest in the economic activity of the nation, the business enterprise is being controlled by the State. This involves the spending of much time and money by the entrepreneur in observing all the rules and regulations. Hence, keeping in view the peculiar requirements of an enterprise, the entrepreneur must select such a form of organization on which the State exercises minimum control.
9. **Retention of Business Secrets:** The entrepreneur will also have to ensure that the form of organization chosen by him allow vital secrets to be retained without being leaked out to the competitors.

## 2.5 Choice of Proper Forms of Organization

The various characteristics of an ideal form of organization discussed above cannot be taken into account singly. Rather they are to be weighed against each other in the light of the requirements of the enterprise proposed to be started. Some requirements which guide entrepreneurs in making this choice are:

- Nature of business - Trading, manufacturing, commercial or service.
- Expected life span of business
- Requirements of capital for the business and the available sources of finance
- Expected volume of business
- Area of operations – whether local, national or international
- Extent of government control and the freedom desired by the entrepreneurs
- Legal formalities for establishing and organizing the business
- Rights and responsibilities (including personal liability) of the owners
- Opportunities and requirements for decision making
- Tax advantage under different type of organization.

Of the various factors discussed above in the choice of a proper form of organization for a business, the most important is that of raising the requisite amount of capital. Limited liability is the next important factor. The other factors are relatively less important. Nevertheless, the factors discussed above are to be weighed against each other and a form of organization which will provide the maximum net gain has to be decided. The distinguishing features of each form of organization with their respective merits and limitations are discussed below:

### 2.5.1 Sole Proprietorship

A sole partnership (or one-man business or sole trader or individual proprietorship or individual entrepreneurship) is a form of business organization in which an individual introduces his own capital, uses his own skill and intelligence in the management of its affairs and is entitled to receive all the profit and assumes all the risks of ownership.

#### Leading Features

The following are the essential features of a sole proprietorship:

- The business is owned singly by an individual.
- The business is controlled by single person.
- The individual assumes all the risks to which the business is exposed.
- The individual has an unlimited liability. His personal assets can be used for the payment of business liabilities.
- The business firm is not a separate legal entity from the sole proprietor.
- No legal formalities are necessary to set up the business as such but there may be legal restrictions on a particular type of business. For example, no individual can start or run a bank or an insurance company; he may do so without any legal formalities. But in some cases a license may be necessary, e.g. if he wants to start a restaurant, license from the health department of the municipal corporation will be required.
- He has almost unlimited freedom of action and decides everything for the firm without fear of any opposition, but of course, at his own risk. To sum up, the proprietor is his own master in this form of organization.
- That there may be employees makes no different. He may instead take the help of the member of the family.

#### Evaluation

As capital is limited the liability of the entrepreneur is unlimited, this form of organization is all right for a small-scale business. This is obvious from the discussion of its merits and limitations given below.

#### Advantages

The following are the advantages of sole proprietorship:

- **Ease of Formation:** It is easy to form a sole proprietorship as no legal formalities or other complicated procedure is required to be followed. Men with limited means can start an independent business and get themselves self-employed. The cost of starting this type of organization is also negligible.

- **Incentive:** All the profits of the business belong to one person and this gives great incentive to the owner to take personal interest in his business and manage it most efficiently.
- **Freedom of Action:** In matters of business dealing the sole proprietor can take his own decisions and there is none to question his authority. This type of freedom of action promotes initiative and self-reliance.
- **Quick Decision:** As there is no need to consult any other person, the sole proprietor can take prompt decisions. Promptness in business matters can result only when the entire responsibility of business lies with the proprietor.
- **Flexibility:** As quick decision can be taken, the sole proprietor can adapt himself to the changing situation with comparative ease. Further, flexibility is facilitated by the little capital and small-scale operation which can be adjusted to the new situation with ease.
- **Personal Touch:** As only one man is dealing with the business, the proprietor can come into close contact with the customers and he can earn goodwill by attending to the customers' demands promptly and satisfactorily.
- **Business Secrecy:** In this type of business, it is easy to maintain the secrecy of business. Any change he wants to make regarding business methods or policies can be done without the knowledge of others. Maintaining business secrecy is very important in competitive business.
- **Social Desirability:** From the social point of view, sole proprietorship is desirable as it ensures that too much wealth does not concentrate in a few hands. It may be one of the ways in which equitable distribution of wealth is ensured. Further, the principle of unlimited liability of the proprietor ensures sufficient responsibility to the society.

## Disadvantages

Some of the disadvantages of sole proprietorship are:

- **Limited Resources:** In this type of concern, the resources are very limited, as only one person is responsible for the business and the capital is limited to his capacity. If the business needs expansion, it cannot take place as the amount of capital that can be paid is restricted by the extent of his personal credit.
- **Limited Managerial Ability:** The managerial ability is also limited. While running business many problems arise and it may not be possible for one person to solve them. Again, the sole proprietor may not be an expert in performing every function like purchasing, selling, accounting and correspondence. He may be an expert in accounts but not in purchases. There are very few people who are experts in every field.
- **Unlimited Liability:** All the personal properties of the proprietor are liable to an unlimited extent for the debts of the business. This is a very serious handicap to the owner and this discourages the expansion of business even when there are prospects of earning profits.
- **Uncertain Future:** This kind of business also suffers from an uncertain future. If the sole trader dies, his business may come to an end. Long period stability which is a condition precedent to progress cannot be achieved with this form of business.
- **No Economies of Large Scale and Specialization:** Because of the small size, sole trader

cannot secure economies of large scale manufacturing, buying and selling. Further, as the degree of specialization is very small, the benefits of specialization or services of experts cannot be obtained.

- **Suitability:** From the above account of advantages and disadvantages of sole proprietorship, it is clear that this form of business organization is most suitable where:

Capital required is small,

Risk involved is relatively not high,

Nature of business affairs is simple of character and requires quick decision,

The personal contact with the customers has great importance and

Where special regard has to be shown to the tastes and fashions of customers

The retail shops, professional firms, household and personal service concerns are mostly started by individual proprietors. Thus, the individual proprietorships are continuing to exist in spite of the development of bigger organizations like partnership, firm and Joint Stock Company

### **2.5.2 The Joint Hindu Family Firm**

In India a large number of businesses are carried on in the shape of Joint Hindu Family (JHF) firms which are in essence individual entrepreneurs possessing almost all the advantages and limitations of sole proprietorship. A JHF comes into existence by the operation of law. If the business set up by a person is carried on by male members of his family after his death, it is a case of JHF. Except in Bengal where dayabhaga system of Hindu law is prevailing, in the rest of India mitakshara system of inheritance is in operation according to which three successive generations in the male line simultaneously inherit the ancestral property from the moment of their birth. Thus son, grandson and great-grandson become joint owners of ancestral property by reason of their birth in the family. They are called coparceners-in-interest. The Hindu Succession Act, 1956, has extended the line of coparcenary interest to female relatives of the deceased coparcener or male relative claiming through such female relatives. The family business is included in heritable property and is thus the subject of coparcenary interest. Under the dayabhaga law the male heirs become members on the death of the father.

The business is ordinarily managed by the father or other senior member of the family and he is called Karta or Manager; other members have no right of participation in the management. The Karta has control over the income and expenditure of the family and he is the custodian of the surplus, if any. The other members of the family cannot question the authority of the Karta and their only remedy is to get the family dissolved by mutual agreement. If the Karta has misappropriated the funds of the business, he has to compensate the other coparceners to the extent of their share in the joint property. The Karta can borrow funds for conduction the business but the



other coparceners are liable only to the extent of their share in the business. In other words the liability of the Karta is unlimited.

A Joint Hindu Family can enter into partnership with others. But outsiders cannot become members of the Joint Hindu Family. The death of a member does not dissolve the business of the family. Dissolution of the Joint Hindu Family is possible only through mutual agreement. The male adult members can demand partition of the property of the Joint Hindu Family. On separation, a coparcener has no right of asking for previous accounts.

### **Advantages**

Some of the advantages of Joint Hindu Family Firm are as follows:

- Every coparcener is guaranteed a 'bare subsistence' irrespective of the extent of his contribution to the business.
- There is scope for younger members of the family to get the benefit of knowledge and experience of elder members of the family.
- Members of the family are taught to work not only for their own benefit of entire family without being selfish.
- Members of the family who are sick, unemployed, old and bodily infirm, widows and orphans are looked after by the other members of the family with due care.
- This form of organization provides an opportunity to develop virtues of discipline, self sacrifice and co-operation.
- Benefits of 'division of labour' can be secured by assigning the work to members of the family as per their specialization.
- As Karta enjoys full freedom in conducting family business, he can take quick business without interference by others.
- As the liability of Karta is unlimited, he takes maximum interest in business in order to manage it on the most efficient lines.

### **Disadvantages**

As against the above advantages, the Joint Hindu Family Firm suffers from the following disadvantages:

- There is no encouragement to work hard and to earn more, because members who work hard are not properly rewarded and the benefit of their hard work is shared by all co- partners irrespective of the work turned out by them.
- As Karta takes the responsibility to manage the firm, the other members of the family may become lazy and inactive.

- The Karta exercises full control over the entire business and other co-partners have no right to interfere in the management of business and by this, the initiative and enterprise of individuals are hampered.
- Generally, the views of the younger members of the family may not be approved by the elder members of the family. This leads to conflict between old and young members of the family and this may result in the partition of business.
- As Karta enjoys full freedom in conduction the business and as other co-partners have no right to interfere with the Karta in respect of conducting business, he may misuse this freedom for his personal benefits.

## **Evaluation**

This form of business organization is losing ground with the gradual end of the joined Hindu family system. It is being replaced either by sole proprietorship or partnership firm.

### **2.5.3 Partnership Organization**

To become a successful businessman one must possess adequate capital, knowledge and experience of business, technical skill, knowledge of accounting, purchasing and selling methods, etc. But generally it is difficult to find a person possessing all the qualities required for the success of the business. One may possess capital, but may be lacking experience in business or vice versa. Hence there arises the need for formation of partnership business where two or more persons join together of whom some may have adequate capital and some other may be experts in other fields like purchasing, selling accounting etc.

## **Definition**

In India, the partnership organization is governed by the Partnership Act 1932. Section 4 of the Act defines partnership as “the relation between persons who have agreed to share the profits of a business carried on by all or any of the acting for all”. Persons who enter into partnership are individually called partners and collectively a firm and the name under which business is carried on is called the ‘firm name’.

## **Essential Characteristics**

- The definition of partnership given above contains the following elements:
  - Partnership is relationship between certain persons.
  - Who have entered into an agreement?
  - For carrying on business for gain.
  - For sharing the profits derived from the business and
  - Which is carried on by all the people’s party to the agreement or any of them acting for all?

All the elements stated above must be present before a group of persons constitute a partnership. The essential characteristics of partnership are explained below:

### **Plurality Of Persons**

For constituting a partnership there must be an association of two or more persons. But the maximum number of persons in the case of banking business is 10 and in the case of other business 20. The maximum number is laid down as such for association by the Companies Act, 1956

### **Contractual Relationship**

The partnership is the result of an agreement, express or implied, between persons who form the partnership. The Indian Partnership Act clearly states that the relation partnership arises from contract and not from status. Two persons may be considered partners in the commercial and legal sense unless they enter into an agreement for the same Likewise a joint Hindu family firm is not a partnership.

### **Profit Motive**

The primary motive of partnership contract is mutual gain or profit. But if the manager of a firm is given a share in profits, he is not to be treated as a partner, because other elements of partnership are not satisfied.

### **Existence of Business**

If an agreement is made between two or more persons for a social or charitable cause it is not partnership. Partners while agreeing to share the profit of business, also undertake to share its losses, if any.

### **Principal-Agent Relationship (Implied Agency)**

The partnership business should be carried on by all or by any one of the partners acting for all the partners. This implies that the partners not only own the business, but also manage it. Though the partners have a right to take part in the management, it may not be possible for all the partners to take part. If any one partner manages the business, he does it on behalf of the others. The relation between partners is one of agency so that every partner binds the other partner by an act in the name of the partnership firm and in the ordinary course of its business. In other words, there is mutual agency. Each partner is the agent of the other partners and each is the principal. For this reason it is sometimes stated that the law of partnership is an extension of the law of agency.

### **Other Legal Characteristics Of Partnership Organization**

Certain other important legal characteristics of partnership organization are worth mentioning. They

are:

### **Unlimited Liability**

The liability of each partner of firm is unlimited in respect of the firm's debts. The liability of partners is joint and several and therefore even one of the partners can be called upon to pay the debts of the firm in case the firm's assets are insufficient.

### **No Separate Legal Entity**

The partnership firm has no independent legal existence apart from the persons who constitute it.

### **Utmost Good Faith**

A partnership agreement is based on mutual confidence and trust of the partners. The partners must, therefore, be just and honest towards the other partners. They must disclose all facts and render true accounts relating to the business of the firm and not make any secret profits.

### **Restriction On Transfer Of Interest**

No partner can transfer his share to an outsider without the consent of all other partners.

### **Unanimity Of Consent**

No change may be made in the nature of the business without the consent of all the partners.

### **Dissolution**

In the following cases, the dissolution of partnership takes place:

- By the expiry of the term of the partnership.
- By the completion of a particular adventure and/or
- By the death, retirement or insolvency of a partner.

### **Registration of Firm**

The Partnership Act provides for the registration of partnership with the Registrar of Firms appointed by the Government. The Act does not make it compulsory for partnership to be registered, nor does it impose any penalty for non-registration. But the Act imposes certain disabilities on the partners of an undersigned firm so as to make registration very desirable. It lies down that an unregistered firm will not be able to enforce its claims against third parties if the suit is for more than Rs.100. No partner of an unregistered firm can file a suit to enforce his right under the partnership deed. Third parties can however file suits against the firm and the partners. Also non

registration of a firm does not affect the following:

- The right of a partner to sue for dissolution of the firm or for accounts of and his share in the dissolved firm.
- The power of an official assignee to realize the property of an insolvent partner.
- The rights of a firm or its members have no place of business in India.
- Suits not exceeding Rs.100.
- Suits arising otherwise than under a contract for instance a suit against a third party for infringement of trademarks of the firm.

### **Kinds of Partners**

In a partnership organization, there are different kinds of partners. They are classified as follows:

- **Active Partner:** There are some partners who contribute not only capital to the partnership business but also take active part in the management of the business and they are called active partners.
- **Sleeping Partners or Dormant Partners:** In partners contribute only capital do not participate in the management of the business they are called sleeping or dormant partners. Though they do not participate in the business, it does not preclude them from their liability to the third parties.
- **Nominal Partners:** Sometimes, person lends their names and credit to the partnership firm but neither contributes any capital nor takes active part in the management of the business. Such partners are called nominal partners. They are partners in name only and are not entitled to the direct benefits of partnership. Legally they are regarded as partners and are liable for all the debts for which their names and credit are used.
- **Partners in Profits only:** If a person is entitled to a certain share of profits without being liable for the losses he is known as partner in profits only. He will not be allowed to take part in the management of the business, but will be liable to third parties for all the acts of the partnership.
- **Partner by Estoppels:** If any person behaves in such a way that others consider him to be a partner, he will be held liable to those persons who have been misled and lent finance to the firm on the assumption that he is a partner. Such a person is known as partner by estoppels. He is not a true partner of the firm and also is not entitled to any share in the profits of the firm.
- **Minor Partners:** A minor also can be admitted into a partnership firm. But, as he cannot enter into a contract, he cannot be a full-fledged partner. The liability of a minor partner is limited to the extent of his share in the firm. Within six months after attaining majority, he has to give public notice stating whether he will continue as partner or not. If he fails to announce within the prescribed period, he will be treated as having decided to continue as a partner. If he chooses to continue as a partner or decided to be a partner, his liability will become unlimited, with effect from date of original admission of the benefits of partnership.

## Advantages of Partnership Organization

The following are the advantages of general partnership organization:

- **Ease of Formation:** Like the sole proprietorship, a partnership can be formed without expense and legal formalities. Even registration is not compulsory.
- **Larger Resources:** When compared to sole proprietorship, resources are more and hence the scale of operation can be increased if necessary. The talents, managerial abilities and power of judgment of two or more persons are combined in partnership and this facilitates better organisation of business.
- **Great Interest in the Business:** The partners take more interest in the business as they are owners and as profit from the business depends on the efficiency with which they manage it.
- **Quick Decision:** As partners meet very often, can be taken regarding business policies and by this the firm would be in a position to take advantage of changing business conditions.
- **Flexibility:** As partnership is free from legal restriction on its activities, the line of business can be changed at any time. If it is a company, its object cannot be changed without the sanction of Central Government.
- **Lighter Risk:** In the case of Sole Proprietorship, all the losses will have to be borne by only one person, but in partnership, the losses are shared among the partners and hence this is lighter risk.
- **Protection to Minority:** The minority interest is well protected by law. In the case of important matters like change in nature of the business and other matters of policy, unanimity is necessary. Even in ordinary matters where unanimity is necessary, a dissatisfied partner may withdraw and dissolve the firm.
- **Influence of Unlimited Liability:** The principle of unlimited liability helps the firm to secure additional funds for the business, as the financiers are assured of refund of their amounts. Further, the partners will be careful in their business dealings because of the fear of their personal properties being liable under the principle of unlimited liability.
- **Better Public Relation:** As the size of the business is not very big and as the partners themselves look after the business, there is great scope to develop cordial relation with the employees, customers and others and this would help the business in many ways.

## Disadvantages

- **Great Risks:** As the liability is joint and several, any one of the partners can be upon to pay all the debts of the firm. This affects not only the capital contributed by him but also his personal properties. Further, as every partner has a right to take part in the management of the firm, any misjudgements or faults by one of them would bring disaster to the other partners.
- **Lack of Harmony:** As every partner has equal voice in the management, everyone would try to assert his position and this might lead to internal friction and misunderstanding crops and as a result, the business may be very much affected and may come to an end.
- **Limited Resources:** As the number of partners cannot be more than 10 in the case of banking

business and 20 in the case of any other business, there is a limit to the amount of capital that can be raised. This is a great handicap of partnership, particularly where a business which requires more or fixed capital outlay obviously calls for some other forms of business organization.

- **No Legal Entity:** The partnership has no independence existence apart from the persons, who compose it, i.e., it is not a legal entity.
- **Lack of Public Confidence:** As no legal regulations are followed at the time of its formation and enjoy as there is no publicity of its affairs, a partnership may not enjoy public confidence.
- **Lack of Stability:** There is instability in the life of partnership, because the death, retirement and insolvency of a partner can affect the continuity of business. Even any single partner, if he is dissatisfied with the business can bring about dissolution of partnership. Hence, a business which requires a long period for establishment and consolidation is unit for being organized as a partnership firm.
- **Suitability:** The above drawbacks suggest that partnership organization tends to be useful only for comparatively small business, such as retail trade, moderate sized mercantile houses, professional services or a very small manufacturing business. However, as compared to a sole proprietorship, partnership is bigger in size and operation and is well suited for business units of medium size.

## 2.6 Self Assessment Test

1. What are the values of a successful entrepreneur?
2. Explain the attitudes of a successful entrepreneur.
3. What are the characteristics of a successful entrepreneur?
4. Describe new ideas about entrepreneurship.

## 2.7 Further Reading

- 1 Entrepreneurship Development in India, Sami Uddin, Mittal Publications, 1989, ISBN, 8170991900, 9788170991908
- 2 Entrepreneurship Development in public Enterprises, Joseph Prokopenko, Igor Pavlin, International Labour Office, 1991 ISBN-10: 922107286X ISBN-13: 978-9221072867
- 3 Entrepreneurship Development, S. Anil Kumar, New Age International, 2003, ISBN: 9788122414349,8122414346

# ENTREPRENEURSHIP DEVELOPMENT

BBA - 602

## BLOCK 3: ENTREPRENEUR AND ECONOMIC DEVELOPMENT



**Dr. Babasaheb Ambedkar Open University  
Ahmedabad**





“

*Education is something  
which ought to be  
brought within  
the reach of every one.*

”

- Dr. B. R. Ambedkar



**Dr. Babasaheb Ambedkar Open University**

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**ENTREPRENEURSHIP DEVELOPMENT**

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**BLOCK 3 : ENTREPRENEUR AND ECONOMIC DEVELOPMENT**

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Unit-1      Role of Entrepreneur in Economic Development

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## **ROLE OF SELF INSTRUCTIONAL MATERIAL IN DISTANCE LEARNING**

The need to plan effective instruction is imperative for a successful distance teaching repertoire. This is due to the fact that the instructional designer, the tutor, the author (s) and the student are often separated by distance and may never meet in person. This is an increasingly common scenario in distance education instruction. As much as possible, teaching by distance should stimulate the student's intellectual involvement and contain all the necessary learning instructional activities that are capable of guiding the student through the course objectives. Therefore, the course / self-instructional material are completely equipped with everything that the syllabus prescribes.

To ensure effective instruction, a number of instructional design ideas are used and these help students to acquire knowledge, intellectual skills, motor skills and necessary attitudinal changes. In this respect, students' assessment and course evaluation are incorporated in the text.

The nature of instructional activities used in distance education self-instructional materials depends on the domain of learning that they reinforce in the text, that is, the cognitive, psychomotor and affective. These are further interpreted in the acquisition of knowledge, intellectual skills and motor skills. Students may be encouraged to gain, apply and communicate (orally or in writing) the knowledge acquired. Intellectual-skills objectives may be met by designing instructions that make use of students' prior knowledge and experiences in the discourse as the foundation on which newly acquired knowledge is built.

The provision of exercises in the form of assignments, projects and tutorial feedback is necessary. Instructional activities that teach motor skills need to be graphically demonstrated and the correct practices provided during tutorials. Instructional activities for inculcating change in attitude and behavior should create interest and demonstrate need and benefits gained by adopting the required change. Information on the adoption and procedures for practice of new attitudes may then be introduced.

Teaching and learning at a distance eliminates interactive communication cues, such as pauses, intonation and gestures, associated with the face-to-face method of teaching. This is particularly so with the exclusive use of print media. Instructional activities built into the instructional repertoire provide this missing interaction between the student and the teacher. Therefore, the use of instructional activities to affect better distance teaching is not optional, but mandatory.

Our team of successful writers and authors has tried to reduce this.

Divide and to bring this Self Instructional Material as the best teaching and communication tool. Instructional activities are varied in order to assess the different facets of the domains of learning.

Distance education teaching repertoire involves extensive use of self-instructional materials, be they print or otherwise. These materials are designed to achieve certain pre-determined learning outcomes, namely goals and objectives that are contained in an instructional plan. Since the teaching process is affected over a distance, there is need to ensure that students actively participate in their learning by performing specific tasks that help them to understand the relevant concepts. Therefore, a set of exercises is built into the teaching repertoire in order to link what students and tutors do in the framework of the course outline. These could be in the form of students' assignments, a research project or a science practical exercise. Examples of instructional activities in distance education are too numerous to list. Instructional activities, when used in this context, help to motivate students, guide and measure students' performance (continuous assessment)

## **PREFACE**

We have put in lots of hard work to make this book as user-friendly as possible, but we have not sacrificed quality. Experts were involved in preparing the materials. However, concepts are explained in easy language for you. We have included many tables and examples for easy understanding.

We sincerely hope this book will help you in every way you expect.

All the best for your studies from our team!

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**BLOCK 3 : ENTREPRENEUR AND ECONOMIC DEVELOPMENT**

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**BLOCK 4 : CREATING ENTREPRENEURIAL VENTURE**

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Unit-2      Environmental Analysis and Basic Govt. Formalities.

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# **UNIT-1    ROLE OF ENTREPRENEUR IN ECONOMIC DEVELOPMENT**

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## **Learning Objectives**

- Comprehend the General Contributions of Entrepreneurs to the Economy and the Role of Entrepreneur in the Indian Economy
- Know the Entrepreneurial Culture
- Realize the Role of Motivation
- Learn hints to help Entrepreneurs
- Perceive the Global Role of the Entrepreneur

## **Structure**

- 1.1 Introduction
- 1.2 General Contributions of Entrepreneurs to the Economy
- 1.3 Role of Entrepreneur in the Indian Economy
- 1.4 Entrepreneurial Culture
- 1.5 Motivation
- 1.6 Hints to help Entrepreneur
- 1.7 The Global Role of the Entrepreneur
- 1.8 Self Assessment Test
- 1.9 Further Reading



## **1.1 Introduction**

Entrepreneurs create opportunities for increased per capita output and income. On one hand, they create new products and services to fill needs in society. On the other, they provide employment, either directly in units controlled by them or in tertiary units that supply their units with raw materials, machinery, etc. One theory of economic growth portrays innovation as the key in stimulating investment in new technologies and new products.

## **1.2 General Contributions of Entrepreneurs to the Economy**

In general, entrepreneurs contribute in the following way to the economy of the country in which they operate:

### **1. Entrepreneurs make unique contributions to the economy**

Entrepreneurs change the way people work and live and thus change the way the economy itself functions. For example, Children First and entrepreneurial venture in the USA, changed the way people worked in offices. Started by Rosemary Jordano in 1992, Children First provides back-up child care to employees of around 300 businesses in the USA. This service has resulted in employees missing fewer days of work, thus making them more productive. The service has also resulted in greater peace of mind for employees, thus making them more efficient and effective at work.

### **2. Entrepreneurs create innovations that improve the quality of life**

For example, Michael Dell, founder of Dell Computer Systems, has established a number of philanthropic and community service foundations within his organization. These foundations work in the field of educational, environmental, business, economic and social issues to improve the quality of life of people. Even if entrepreneurs do not establish such foundations, their products and services themselves can improve the quality of life of people in the economy. Children First's services have resulted in a more relaxed workforce, giving them peace of mind. Martha Stewart's books, tapes, videos and CDs are referred to by thousands of Americans for tips on household chores including kitchen tasks, gardening and home décor.

### **3. Entrepreneurs create new jobs**

Dell Corporation employs 36,000 employees. Children first have created new jobs for around 250 people. Martha Stewart Omnimedia employs over 420 people, including 180 in- house editor, art and style directors, designers, craftsmen, cooks, gardeners and business and administrative staff. Thus we see that entrepreneurs create jobs for people, empowering them and making the economy stronger.

### **4. Entrepreneurs make the economy more competitive**

By providing jobs, unique services and psychological advantage, entrepreneurs strengthen the economy and make it more competitive in the global marketplace. For example, by reducing absenteeism, Children First makes companies more productive. In providing made-to-order computers for individuals, Dell Corporation has spread its manufacturing operations across the globe, thus taking advantage of local economies of scale and local prices. Currently, the

Corporation has manufacturing units in Texas, Tennessee, Brazil, Ireland, Malaysia and China. It can thus serve a diverse range of markets at very competitive prices.

Thus we see that entrepreneurs contribute greatly towards strengthening the economy and making it more competitive providing jobs to millions of people and helping millions of other through philanthropic foundations and community service.

### **1.3 Role of Entrepreneur in the Indian Economy**

Entrepreneurs play a major role in the development of the Indian Economy. Entrepreneurs play a pivotal role in engendering economic growth and regional development. According to NIESBUD, some of the areas in which entrepreneurs have had a positive and lasting impact are:

- Employment Generation
- National Production
- Dispersal of Economic Power
- Balanced Regional Development
- Gainful utilization of the vigour of youth

#### **Let us study these aspects in detail**

Unemployment is a major problem in any developing economy and is a special problem in India in addition to the rapid rate of population growth and poor utilization of resources. Government does create jobs, but such jobs are dead-ends to economic development. Once a vacancy is filled in a government department, no new vacancy can be created for the next at least thirty years or so, until the person retires. Entrepreneurs on the other hand create jobs for themselves as well as generate employment for many more. The very nature of entrepreneurship ensures that ventures grow, expanding the employment opportunities and thus providing employment for many more over a period of time. Entrepreneurship also has a cascading effect, inspiring others to start entrepreneurial ventures as ancillary units to larger entrepreneurial ventures.

#### **National Production/National Income**

Entrepreneurs produce goods and services for consumption within the country as well as for export. This substantially increases the National Product and consequently, National Income. As National Income increases, so does per capita income, from the various employment opportunities generated. This puts a larger disposable income in the hands of the populace, which begins to demand, thus pushing up National product again. Thus, entrepreneurship has a positive effect on National Product and National Income.

#### **Dispersal of Economic Power**

Economic power today rules the world. For a long time, the structure of the Indian Economy concentrated this economic power in the hands of a few, creating virtual monopolies that

controlled much of India's resources. However, with the growth of entrepreneurship and the push given to entrepreneurial development by the government, this economic power is now beginning to get dispersed among a large number of people, thus avoiding monopolies and the concentration of economic power in the hands of a few.

### **Balanced Regional Development**

Until the late sixties, only six cities in India were host to fifty percent of the industries. With the development of an entrepreneurial spirit, entrepreneurs who wanted to avoid the stiff competition in cities with established industries began ventures in other, lesser developed areas. The growth of these ventures automatically brought in development in the form of employment Roads, transportation, education, entertainment, etc. Entrepreneurship thus helped achieve a balanced regional development.

However, there was a negative side to this too. Regions that do not have entrepreneurs of their own tend to attract entrepreneurs from other regions, who rush in to fulfil the demands of the populace. However, such entrepreneurs do not re-invest in the current region, preferring to siphon off their profits to the regions whence they originally came. The concept of "building in one's ancestral land" meant that profits from other regions were invested in land, buildings and other infra structure in the entrepreneur's home town, an effect termed "the leech effect" by Dr.M.M. P. Akhori.

In order to avoid this leech effect, entrepreneurs need to spring up in their own regions, thus ensuring a balanced regional development.

### **1.4 Entrepreneurial Culture**

Entrepreneurial Culture refers to the environment, social structures, economic infrastructure and attitudes that promote entrepreneurship. Some countries, such as the USA, pride themselves on their entrepreneurial culture, where everyone, regardless of age, background, education, etc., is empowered to be an entrepreneur if they so choose. In other countries, such as India, social and cultural factors show a preference for "job" rather than "business" for most individuals, barring traditional communities that have always been entrepreneurial in nature.

#### **1. Personal Background**

Studies on entrepreneurial culture and the environment in which entrepreneurship thrives concentrate on aspects like the childhood and family environment, education levels and education history, value systems inculcated by family and society, age of the entrepreneur when he starts his first major venture and the work history of the entrepreneur. Let us study these aspects in some detail.

##### **a. Childhood and Family**

Some studies, notably by Henning and Jardim and Hisrich and Brush, have indicated a correlation between the birth-order and the tendency towards entrepreneurs. The studies have shown that female entrepreneurs are more likely to be the first-born. This has been attributed

to factors like greater self-confidence because of almost exclusive attention paid to the child in the first year of more after its birth. One can also attribute the tendency of the first born to be an entrepreneur to a greater sense of responsibility instilled in the child in taking care of younger siblings. However, no conclusive evidence has been found to link birth-order to the definitive creation of an entrepreneur. More study has to be done on this aspect before a clearer picture can emerge.

In terms of parental occupations, it was found that entrepreneurs tend to have entrepreneurial fathers and often entrepreneurial mothers as well. Such parents were found to have a strong influence on the children's choice of occupation and provided strong role models for entrepreneurship.

In terms of parental support, it is crucial to be supportive of children's activities and interests. Children who are encouraged to explore their talents and natural inclinations are more likely to become entrepreneurs.

#### **b. Education**

While the general impression is that entrepreneurs are less educated than others of similar age and background, studies show that this is not the case. Even mediocre students who go on to become entrepreneurs tend to pursue studies in their chosen field of entrepreneurship and excel in those studies. Entrepreneurs also show a highly developed ability to deal with people and have above average writing and speaking skills.

#### **c. Value Systems**

Value systems refer to the personal values that entrepreneurs have and which they live by. While values like creativity, resource management, etc. are high among entrepreneurs, they are similarly high among managers. Therefore, these values alone cannot be said to indicate an entrepreneurial bent of mind. This indicates that entrepreneurs possess values in addition to the ones they share with successful managers. Studies show that the term "winning" is frequently used by entrepreneurs and in entrepreneurial ventures that succeed. Therefore, it can be presumed that "winning" is a value or trait that may indicate an entrepreneurial spirit. However, more solid research needs to be done on this aspect.

#### **d. Age**

In studying the age of the entrepreneur, two yardsticks are generally used. The Chronological Age (that is, the number of years that have passed after the person's birth) and The Entrepreneurial Age (that is, the number of years the entrepreneur has spent in his chosen field).

The chronological age of entrepreneurs tends to be lie between 22 and 45. In other words, a person is most likely to be over 22 and under 45 when he starts his first major venture. There is also a psychological value attributed to steps of five. In other words, entrepreneurs are most likely to start a major venture at 25, 30, 40 or 45. These are usually considered milestones in a person's life and entrepreneurs report a feeling of "it has to be now or never" when they reach

these milestones.

#### **e. Work History**

Work history of entrepreneurs shows a tendency to be dissatisfied with working under someone or a feeling of lack of challenge, lack of promotional opportunity etc. There can be no doubt that this feeling of dissatisfaction drives the entrepreneur to quit his job and start his own venture. However, the work history of the entrepreneur also shows that experience in finance, produce/service development, manufacturing, distribution etc.; provide the means to make the entrepreneur's venture a success.

### **1.5 Motivation**

The desire for independence emerges as the single most common motivation for starting one's own venture. Entrepreneurs prefer to have full control over what they do and the desire to be one's own boss has been found the world over to be the driving force that enables entrepreneurs to accept the financial, social and other risks of becoming an entrepreneur. This motivation enables entrepreneurs to endure the long hours, frustration anxiety and other negative aspects of entrepreneurship.

#### **Support Systems**

Support systems refer to the networks that grow in social situations. These networks are like a grid of people; colleagues, old school mates, professional acquaintances, etc. who help the individual entrepreneur in various ways.

#### **Moral Support Systems**

Moral support systems are the network of family and friends that encourage the entrepreneur and cheer him on when he may feel low or discouraged. Most entrepreneurs acknowledge that their spouses are their best supporters, allowing them to spend the long hours necessary in developing the venture and providing solace in the lonely hours when the entrepreneur may begin to lose hope.

Friends are another important factor in the grid of moral support systems. Friends can provide honest and hard-headed advice, encouragement, understanding and assistance.

#### **Professional Support Systems**

Professional Support Systems are network of individuals with expertise in various aspects that touch upon the entrepreneurial venture. Mentors, trade associations, chambers of commerce, clubs and societies, etc., form the professional support system of the entrepreneur.

Clients and customers also form an excellent professional support network. Word of mouth is the most powerful form of advertising and it helps if the entrepreneur forms a personal rapport with customers. Such customers can also provide valuable feedback to the entrepreneur, which will help in product enhancement.

Suppliers can also be a powerful professional support system, helping to establish credibility with creditors and customers. They can also provide information of trends in industry, often

tipping off the entrepreneur about impending shortages or gluts.

### **Micro-Enterprise Promotion in Agriculture: Indian Imperatives and Global Perspective through Entrepreneurs**

It is enlisted just to know the role of entrepreneurs in Indian Economy but the total scenario is endless.

- Sustainable rural entrepreneurship process: creating added values for the economy.
- Dairy farming-a profitable enterprise.
- Income and employment generation through forest and forest based industries.
- Opportunities and challenges for Indian livestock in context of globalization.
- Micro enterprises in agriculture for sustainable development.
- Fodder supply micro models for peri - urban systems.
- Live stock enterprise: a potential sector for employment and income generation.
- Constraints and strategies in livestock enterprise promotion in India.
- Rural industries in India: issues, challenges and strategies.
- Creating, entrepreneurial environment and sustainable development in agriculture through farmers-scientists interaction - a case study.
- Piggery micro-enterprise an unexploited profitable husbandry for rural people.
- Value addition of unconventional fibre handicrafts for women empowerment.
- An innovative strategy for employment generation and rural prosperity in apiculture /Jatropha Curcas.
- Role of agriculture in rural livelihood.
- Problems and factors affecting the performance of milk cooperative societies in promoting dairy as a micro enterprise in Punjab.
- Promoting rural employment through micro enterprise development.
- Women entrepreneurship development.
- Entrepreneurial opportunities for farm/non farm women Rajasthan.
- Entrepreneurial opportunities for home-science graduates.
- Commercialization of developed designs from the sculptures of Chaturmukha Jain Temple of Ranakpur.
- Strengthening Self Help Groups for agro-business in Bikaner district-concept and component.

- Rural women empowerment through Self Help Groups.
- Self Help Group-bank linkage and microfinance: an Indian perspective.
- Discovering assets through the community helpers program: a Canadian model.
- Motivation types and sources for self employed rural women.
- Entrepreneurship development among rural women through bee keeping enterprise.
- Self-Help Groups as catalyst of rural development-how they can do it?
- Impact of Swarna Jayanti Grama Swarozgar Yojana (SGSY) on women beneficiaries in Karnataka - a research study.
- Communication web on micro finance.
- Sustainable eco-enterprises for women's empowerment - the role of micro-credit.
- Micro-credit: basic issues and strategies.
- Women Entrepreneurs Under Swarnajayanti Gram Swarozgar Yojana (SGSY) -- case-studies.
- Micro-credit support in promoting women micro enterprises.
- Marketing strategies for micro enterprise development.
- Micro-enterprise promotion in rural India: interventions needed through vocational education and training.
- Empowering villagers through micro enterprises.
- Reorienting farm education for entrepreneurship development and self-employment.
- Notion of value and sustainable development in community mobilization.
- Role of information technology in promoting rural enterprises.
- Privatization of extension services for agri-enterprises promotion in India.
- Culture and social animation: the community mobilizer.
- Training and HRD for promoting rural entrepreneurship.
- Blending technology: a systematic approach to empower rural women.
- Girl child's personality and type of school: need for convergence for entrepreneurial growth.
- Contribution of farm women to family income in rural areas of Bikaner district of Rajasthan.
- Women and work: mapping dimensions of poor women's work in a globalizing environment.

- Experiences in micro enterprise promotion with rural women.
- Extension strategies to promote entrepreneurship among rural women.
- Gender issues and entrepreneurship development a case study of rural women's cooperative credit society.
- Entrepreneurship development programmes towards income generation for rural and tribal women -- a success story.

### **1.6 Hints to Help Entrepreneurs**

You believe in yourself. You have ideas and dreams. Use these convictions to create a rewarding and fulfilling business life, where you are the boss. During the agonies and ecstasies of starting my own company, I learned these "rules of entrepreneurship" the hard way...on the job! Perhaps it can help those of you who are just beginning, to start on the right track and to avoid the road blocks along the way.

You probably need a break from the complexity of starting a business. Here is some fundamental business advice—simple, straight forward and easy to implement.

- Find a need—be ahead of your time. Find a niche where the Giants won't bother to go.
- Identify your market and learn all about it. You have to know everything about your business at the start.
- Prepare a business plan...yes you have to. No bank will take you seriously without a plan for profits.
- Have adequate financing to start and to stay. Success does not happen overnight, so be sure you're financially fit.
- Pay for the best professional advice. Lawyers, accountants, insurers do work on an as needed, fee basis.
- Keep your overhead low and your standards high. Work from home or at a low cost, convenient location.
- Establish a clearly defined distribution network. Whatever your product or service, how will you present and sell it?
- Be creative—your new idea does count. Depend on marketing strategies rather than costly advertising to grow.
- Seek and hire the most qualified people. From the first employee, look for someone who knows more than you.
- Know your competition and work to win. Be persistent, focused and flexible...anything can happen.
- Learn from the success and failure of others. Read, watch trends and observe what is "hot" in your industry.



- Use technology as a tool for building your business from computers to telecommunications to the Web-use them all.
- Don't be sensitive and don't take it personally. Be prepared for rejection, but never give up your dream.
- Never underestimate the power of passion. You will need to take risks and believe when no one else does.

Starting a business requires discipline and discipline requires rules. You may want to follow "rules of entrepreneurship" or create your own set of rules. But you must clearly identify your goals and live by them. Use them as a road map to your success.

### **Defining Goals for Small Business**

#### **By Terri Lonier Small Business Author**

If our vision is the destination, the ideal structure we see on the horizon, then goals are the substance that gives flight to our ideas. For example, assuming you've chosen the type of building you want, you can now decide how many rooms it will have and how they will be furnished—the style and ambience you want to achieve.

Business goals are as diverse as the people who establish them. Some are no-brainers, such as "win enough clients to pay the rent and my salary". A goal can be as specific as "install a new graphics program, so I can target that client who demands this capability from its vendors". A goal might be as short-term as "get this done by Friday" or as long-term as "in 10 years I want to be reporting \$10 million in sales".

Goals are measuring sticks; but on these sticks, we get to draw the dividing marks. We determine what we'd like to achieve during a specific time frame; we design a particular outcome. You define your goals to meet your needs.

Goals are also your guideposts, established to keep you on the right path and to help you assess your progress.

### **Manage Tactics**

We all wrestle with innumerable tasks that fill up our daily "To-Do" lists. Most new business owners and many experienced ones, too, are all too familiar with activities that can take us in a dozen different directions at the same time. They scatter our focus, until at the end of the day we're exhausted—but find ourselves wondering whether we've accomplished anything of importance.

No doubt about it, such tasks can derail the most capable business owner. That's why it's important to make the distinction between a tactic, an approach to accomplishing something and an activity, which, while necessary, could be assigned a lower priority or delegated elsewhere, freeing you to keep your eye on the prize.

### **Formulate Strategies**

Unlike establishing a vision, defining goals and employing daily tactics, which are individual undertakings, strategies can be shared, adapted and refined among other entrepreneurs in other field.

Strategies are the blueprints you draw to help you achieve your goals; they are the systems you use to get yourself where you want to be. Employing strategies is putting brain before brawn, planning before you act. Strategies are so important that I had no difficulty filling an entire book with them But to give you the power you need to succeed, strategies must be put in the context of your business “building”—integrated with your vision, your goals and your tactics.

**This article is excerpted from Smart Strategies for Growing Your Business by Terri Lonier.**

### **5 Tips to Creatively Search for Funding**

- Contact your state, county and local development departments. Many offer funding programs to foster business within a certain geographic area.
- Take advantage of organizations aimed at helping you. The National Organization of Women Business Owners offers special funding programs for women entrepreneurs, for example and the National Minority Supplier Development Council has an arm that works with minority entrepreneurs.
- Call on the community banks in your area. These smaller banks pride themselves on helping small business owners.
- Find out if there are any revolving loan fund (RLF) programs for which you might qualify. They provide “gap financing” that your bank won’t or can’t offer. Your banker should know of any RLFs available.
- Visit [www.sba.gov/financing](http://www.sba.gov/financing), the finance section of U.S. Small Business Administration’s Web site. It provides details on SBA’s many funding programs. Perhaps you qualify for one.

### **1.7 The Global Role of the Entrepreneur**

Entrepreneurs occupy a central position in a market economy. For it's the entrepreneurs who serve as the spark plug in the economy's engine, activating and stimulating all economic activity. The economic success of nations worldwide is the result of encouraging and rewarding the entrepreneurial instinct.

A society is prosperous only to the degree to which it rewards and encourages entrepreneurial activity because it is the entrepreneurs and their activities that are the critical determinant of the level of success, prosperity, growth and opportunity in any economy. The most dynamic societies in the world are the ones that have the most entrepreneurs, plus the economic and legal structure to encourage and motivate entrepreneurs to greater activities.

For years, economists viewed entrepreneurship as a small part of economic activity. But in

the 1800s, the Austrian School of Economics was the first to recognize the entrepreneur as the person having the central role in all economic activity. Why is that?

Because it's entrepreneurial energy, creativity and motivation that trigger the production and sale of new products and services, it is the entrepreneur who undertakes the risk of the enterprise in search of profit and who seeks opportunities to profit by satisfying as yet unsatisfied needs.

Entrepreneurs seek disequilibrium--a gap between the wants and needs of customers and the products and services that are currently available. The entrepreneur then brings together the factors of production necessary to produce, offer and sell desired products and services. They invest and risk their money--and other people's money--to produce a product or service that can be sold at a profit.

More than any other member of our society, entrepreneurs are unique because they're capable of bringing together the money, raw materials, manufacturing facilities, skilled labour and land or buildings required to produce a product or service. And they're capable of arranging the marketing, sales and distribution of that product or service.

Entrepreneurs are optimistic and future oriented; they believe that success is possible and are willing to risk their resources in the pursuit of profit. They're fast moving, willing to try many different strategies to achieve their goals of profits. And they're flexible, willing to change quickly when they get new information.

Entrepreneurs are skilled at selling against the competition by creating perceptions of difference and uniqueness in their products and services. They continually seek out customer needs that the competition is not satisfying and find ways to offer their products and services in such a way that what they're offering is more attractive than anything else available.

Entrepreneurs are a national treasure and should be protected, nourished, encouraged and rewarded as much as possible. They create all wealth, all jobs, all opportunities and all prosperity in the nation. They're the most important people in a market economy--and there are never enough of them.

As an entrepreneur, you are extremely important to your world. Your success is vital to the success of the nation. To help you develop a better business, one that contributes to the health of the economy, I'm going to suggest that you take some time to sit down, answer the following questions and implement the following actions:

What opportunities exist today for you to create or bring new products or services to your market that people want, need and are willing to pay for? What are your three best opportunities?

- Identify the steps you could take immediately to operate your business more efficiently, especially regarding internal operating systems.
- Tell yourself continually "Failure is not an option." Be willing to move out of your comfort zone, to take risks if necessary to build your business.

- Use your creativity rather than your money to find new, better, cheaper ways to sell your products or reduce your costs of operation. What could you do immediately in one or both of these areas?
- Imagine starting over. Is there anything you're doing today that, knowing what you now know, you wouldn't get into or start up again?
- Imagine reinventing your business. If your business burned to the ground today and you had to start over, what would you not get into again? What would you do differently?

### **1.8 Self Assessment Test**

1. Do you feel that entrepreneurs have really contributed in economic development? Discuss your views with supporting examples.
2. What is the general contribution of entrepreneurs in economy? Explain with special emphasis on Indian Economy.
3. What is Entrepreneurial Culture? Explain with reference to Personal Background, Motivation and Support Systems.
4. Short Notes
  - Personal Background
  - Childhood and Family
  - Education
  - Value Systems
  - Age
  - Work History

### **1.9 Further Reading**

1. Entrepreneurship Development in India, Sami Uddin, Mittal Publications, 1989, ISBN, 8170991900, 9788170991908
2. Entrepreneurship Development in public Enterprises, Joseph Prokopenko, Igor Pavlin, International Labour Office, 1991 ISBN-10: 922107286X ISBN-13: 978-9221072867
3. Entrepreneurship Development, S. Anil Kumar, New Age International, 2003, ISBN:

# ENTREPRENEURSHIP DEVELOPMENT

BBA - 602

**BLOCK 4:  
CREATING  
ENTREPRENEURIAL VENTURE**

**Dr. Babasaheb Ambedkar Open University  
Ahmedabad**





“

*Education is something  
which ought to be  
brought within  
the reach of every one.*

”

- Dr. B. R. Ambedkar



**Dr. Babasaheb Ambedkar Open University**

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Ahmedabad-382 481.

**ENTREPRENEURSHIP DEVELOPMENT**

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**BLOCK 4 : CREATING ENTREPRENEURIAL VENTURE**

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Unit-1          Business Planning Process

Unit-2          Environmental Analysis and Basic Govt. Formalities.

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## **ROLE OF SELF INSTRUCTIONAL MATERIAL IN DISTANCE LEARNING**

The need to plan effective instruction is imperative for a successful distance teaching repertoire. This is due to the fact that the instructional designer, the tutor, the author (s) and the student are often separated by distance and may never meet in person. This is an increasingly common scenario in distance education instruction. As much as possible, teaching by distance should stimulate the student's intellectual involvement and contain all the necessary learning instructional activities that are capable of guiding the student through the course objectives. Therefore, the course / self-instructional material are completely equipped with everything that the syllabus prescribes.

To ensure effective instruction, a number of instructional design ideas are used and these help students to acquire knowledge, intellectual skills, motor skills and necessary attitudinal changes. In this respect, students' assessment and course evaluation are incorporated in the text.

The nature of instructional activities used in distance education self-instructional materials depends on the domain of learning that they reinforce in the text, that is, the cognitive, psychomotor and affective. These are further interpreted in the acquisition of knowledge, intellectual skills and motor skills. Students may be encouraged to gain, apply and communicate (orally or in writing) the knowledge acquired. Intellectual-skills objectives may be met by designing instructions that make use of students' prior knowledge and experiences in the discourse as the foundation on which newly acquired knowledge is built.

The provision of exercises in the form of assignments, projects and tutorial feedback is necessary. Instructional activities that teach motor skills need to be graphically demonstrated and the correct practices provided during tutorials. Instructional activities for inculcating change in attitude and behavior should create interest and demonstrate need and benefits gained by adopting the required change. Information on the adoption and procedures for practice of new attitudes may then be introduced.

Teaching and learning at a distance eliminates interactive communication cues, such as pauses, intonation and gestures, associated with the face-to-face method of teaching. This is particularly so with the exclusive use of print media. Instructional activities built into the instructional repertoire provide this missing interaction between the student and the teacher. Therefore, the use of instructional activities to affect better distance teaching is not optional, but mandatory.

Our team of successful writers and authors has tried to reduce this.

Divide and to bring this Self Instructional Material as the best teaching and communication tool. Instructional activities are varied in order to assess the different facets of the domains of learning.

Distance education teaching repertoire involves extensive use of self-instructional materials, be they print or otherwise. These materials are designed to achieve certain pre-determined learning outcomes, namely goals and objectives that are contained in an instructional plan. Since the teaching process is affected over a distance, there is need to ensure that students actively participate in their learning by performing specific tasks that help them to understand the relevant concepts. Therefore, a set of exercises is built into the teaching repertoire in order to link what students and tutors do in the framework of the course outline. These could be in the form of students' assignments, a research project or a science practical exercise. Examples of instructional activities in distance education are too numerous to list. Instructional activities, when used in this context, help to motivate students, guide and measure students' performance (continuous assessment)

## **PREFACE**

We have put in lots of hard work to make this book as user-friendly as possible, but we have not sacrificed quality. Experts were involved in preparing the materials. However, concepts are explained in easy language for you. We have included many tables and examples for easy understanding.

We sincerely hope this book will help you in every way you expect.

All the best for your studies from our team!

**Contents**

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**BLOCK 1 : INTRODUCTION TO ENTREPRENEURSHIP**

Unit-1      Concept of Entrepreneurship

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Unit-1      Concept of Entrepreneurial Development

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**BLOCK 3 : ENTREPRENEUR AND ECONOMIC DEVELOPMENT**

Unit-1      Role of Entrepreneur in Economic Development

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**BLOCK 4 : CREATING ENTREPRENEURIAL VENTURE**

Unit-1      Business Planning Process

Unit-2      Environmental Analysis and Basic Govt. Formalities.

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# **UNIT-1 BUSINESS PLANNING PROCESS**

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## **Learning Objectives**

- Comprehend the Business Planning Process
- Realize the Scope of the Business Plan

## **Structure**

1.1 Introduction

1.2 Business Planning Process

1.2.1 Scope of the Business Plan

1.2.2 Elements of the Business Plan

1.3 Self Assessment Test

1.4 Further Reading

## 1.1 Introduction

The process of creating a new entrepreneurial venture is called the entrepreneurial process. This process goes beyond the mere problem solving approach inherent in a managerial process or by a manager and involves creativity, perseverance and risk taking by the entrepreneur. However, the entrepreneurial process can only take place if the environment for entrepreneurship is favourable. The environment in this case signifies the type of economy, the incentives available to entrepreneurs, the constraints placed upon them, the availability of markets and resources, etc.

However, it is possible to lay down a general procedure or process that captures the essence of entrepreneurship, if the other factors are favourable. The process has four distinct steps:

- Identifying opportunities
- Developing the business plan
- Determining the resources required and
- Managing the enterprise

Of the above, the step of developing the business plan is a crucial one, meriting detailed study. It is therefore covered in the next subsection, “Business Planning Process”. Opportunity identification is the process by which the entrepreneur recognizes an opportunity for a new business venture. This may happen serendipitously, where the entrepreneur simply happens to stumble on a good business idea or it may be the result of a carefully structured process by the entrepreneur. For instance, the entrepreneur may ask friends, acquaintances and even employees about their lifestyles, what they perceive as missing in their lives, things they are unsatisfied with, etc. From such casual conversations, the entrepreneur may gain an understanding; develop an idea for a business venture.

Entrepreneurs are constantly on the lookout for new ideas. They evaluate the lives of friends, relations, co-workers, even strangers at party, in terms of needs and the products and services that fulfil those needs. They are attuned to phrases like “I wish I had something that could ...” or “I wish I could find someone to ...” These phrases signal a need in the person saying them and entrepreneurs quickly latch on to that need and develop a product or service to fulfil that need.

However, this does not mean that entrepreneurs develop products and services for every need they encounter. Once an entrepreneur encounters a need, he will then put it through a process of screening and evaluation to decide whether the venture to fulfil that need would be financially viable. The entrepreneur also evaluates the proposed business venture in terms of risks and returns, personal inclination and skill set of the entrepreneur himself, financial outlay, estimated product life cycle, etc.

Once an entrepreneur is convinced of the economic, social, psychological and chronological viability of the idea, he proceeds to the next step, developing the business plan.

## **1.2 Business Planning Process**

The business plan flows from the evaluation process carried out by the entrepreneur when he screens his ideas for soundness. It is a written document detailing all the relevant elements (internal and external) inherent in making the venture a success. It may be split into functional sub-plans such as the Marketing Plan, Finance Plan, Operations Plan, etc. It is a “road map” for the first three years of the proposed business venture and answers three basic questions; “Where is the venture now?” and “How will it get there”.

The business plan is usually prepared by the entrepreneur himself. However, in cases of complex business processes or businesses involving areas where the entrepreneur is weak (such as technologically intensive businesses), the entrepreneur may hire a consultant to prepare the business plan.

### **1.2.1 Scope of The Business Plan**

The business plan may be aimed at one or more of several audiences.

For e.g., it may be aimed at bankers or venture capitalists for the purpose of securing finance. Or it may be aimed at suppliers to gain a supply commitment. It may be aimed at potential customers. Thus, the business plan must be able to satisfy the unique needs of all these audiences. It must address the issues each of them is interested in and answer all their queries and doubts.

There are three crucial angles from which the Business Plan must be written:

- The Entrepreneurial angle
- The Marketing angle
- The investor angle

The planning process brings objectivity to the venture. When the entrepreneur first gets his idea to start the enterprise, the product / service may seem like a sure shot success. However, by going through the business planning process, the entrepreneur is forced to look at factors like competition, size of the market, SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis, etc. The entrepreneur thus becomes aware of the actual size and scope of the project and the obstacles to progress that may be present. He can then plan on ways and means to overcome those obstacles. In some cases, the entrepreneur may realize that some obstacles cannot be overcome and may decide to terminate the project at that point itself. This will save a lot of time, money and effort that would otherwise have been poured into the enterprise without success.

### **1.2.2 Elements of The Business Plan**

It helps if the entrepreneur has a basic format of a business plan. Such packages cannot replace the knowledge and expertise of the entrepreneur, but they do the structure the ideas and to format the business plan such that it can be presented to investors, potential, clients, etc.

In general, the Business Plan must have the following elements:

### **1. Introductory Page**

The Introductory Page gives, at a glance, the purpose of the report, the financing required and the name of the person / company preparing the report. It usually contains the following:

- Title of the Report
- Name of the company and its owners
- Name of the person who has prepared the report
- A brief description of the proposed business (usually not more than a paragraph or two)
- The amount of financing required
- A statement of the confidentiality of the report

Thus, the potential investor has, at a glance, the concept of the business, the owners and the financial outlay expected. This is important because some investors may have made policy decisions about:

- The type of business: Some investors, due to reasons that may be personal, political and religious, etc., do not invest in certain types of business. For example, the investor may have made a decision not to invest in any business involved in the production or distribution of alcohol or tobacco. The Introductory Page thus saves him the time it would have taken to read through a major part of the report, only to realize he would never invest in it anyway.
- The owner of the business: Investors have to protect their investment. Therefore, it is important for them to know who the promoters of the proposed business are. If the owners have a history of failed businesses, the investor may study the report in greater detail. On the other hand, if the investor has previously funded a business by the owners and it has proved a success, the investor may look more favourably on the report.
- The financial outlay: Investors may also have a policy on the amount of money they will invest in a particular type of business or in a particular owner. The introductory page tells them at a glance whether the proposed business falls within the financial limits they have laid down.

### **2. Executive Summary**

The Executive Summary is prepared after the entire report is prepared, but is placed at the beginning of the report. The purpose of the Executive Summary is to stimulate the interest of the investor and to provide key information that will make the investor read the entire report. The Executive Summary is usually not more than three to four pages in length.



The Executive Summary should highlight the salient features of the plan, including the nature of the proposed business, the financial plan, the marketing plan and the steps that will be taken to ensure the success of the business.

### 3. Industry Analysis

The Industry Analysis is a description and discussion of the industry within which the proposed business will operate. The investor must know the context of the business and the Industry Analysis is vital in this regard. The Industry Analysis provides:

- **The history of the industry:** This gives a historical background to the industry and tells the investor whether it is the relatively new industry or a well established one. Some investors, in fact, may prefer newer industries, since such industries tend to embrace technology more quickly. Others may prefer older industries with a history of stability within the general economy.
- **Current scenario in the industry:** This provides the current state of affairs vis-à-vis the labour situation, infrastructure, laws and taxation, etc.
- **Future trends:** These projections help the investor decide whether the risks and rewards are within the parameters he may have laid down for investment.
- **Competitors:** Each major competitor should be identified and analyzed. The investor will specifically be looking for a SWOT analysis of each competitor and how they will react to a new entrant into the market. The plan must also briefly describe how the new venture plans to tackle competition.
- **Customers:** The market should be segmented and the target segment clearly identified. The investor will specifically look for data on how the new venture's customers profile will differ from that of existing players.
- **Government intervention:** The level of government intervention in that particular industry must be mentioned. Investors may be reluctant to invest in an industry where the government intervention is high
- **Government forecasts and support:** If there are any forecasts made by the government, these should be included in the report. Similarly, any support provided by the government must be mentioned.

### 4. Description of Venture

The Description of Venture is a complete overview of products / services to be offered by the business, its operating procedure, etc. Key included are:

- **Product / Service:** This describes the product or services in detail.

- **Location of the business:** This is important because investors would like to know whether the place of business has sufficient infra structure to support the support the business. If it is to be a retail operation, then factors like traffic, accessibility, visibility etc. are also important.
- **State of the building:** This provides information like whether the building is old, new or under construction, need for renovation must be mentioned. The purchase / lease cost, parking space available, etc., must also be mentioned.
- **Skills required by personnel:** The special skills required by personal to run the business must be mentioned. The plan should also mention whether persons with such skills are easily available, whether additional on the job training will be required, etc., must be required, etc.
- **Office equipment requirement:** The plan should mention the types and number of units of each type that the business will require. If purchases are to be made in phased manner, the estimated duration of each phase must be mentioned. The plan should also mention whether equipment will be leased or purchased and the cost of such procurement.
- **Business background of the entrepreneur:** The investors will be interested in knowing the business background of the entrepreneur, Successful ventures started by him / her, currently running businesses, etc.
- Personal background of the entrepreneur.
- Reason for starting the venture.
- Developmental work completed to date.

## 5. Production Plan

The production plan provides details of how the product will be produced. If it is a service, the plan will detail the processes and methodology of providing the service. Some important elements of this section of the plan are:

- **Scope of production:** Whether the business will be responsible for all or only part of the manufacturing operation.
- Whether a part of the process is to be sub contracted. If so, details of subcontractors.
- Cost of subcontracting.
- Production process layout with illustrations.
- Initial material requirements.
- Raw material requirements.

- Cost of manufacture. Future capital requirements.
- List of potential suppliers and their background.
- Inventory control systems.

## **6. Marketing Plan**

This plan describes market conditions and the strategy to price, promote and distribute the product. The marketing plan must be as detailed as possible, since most investors consider marketing to be the most crucial element in the success of the venture. The marketing goals and the methods to achieve those goals must be clearly given.

## **7. Organizational Plan**

This plan described how the business will be organized. It details the management structure, flow of authority and responsibility, etc. It also indicates the kind of ownership of the organization, whether a proprietorship, partnership, private limited company, public limited company, etc. Some of the elements of this section of the business plan are:

- Form of ownership.
- If a partnership, names and background details of partners.
- If a limited company, names of principal (major) shareholders and amount of stock held by them.
- Names of background of the Board of Directors.
- Method of operating the bank account (who has signing authority, whether the account is to be operated on an either/or basis or only with all signatures of operating authorities etc.
- Details of members of the managing team (if any).
- Roles and responsibilities of key managers
- Salary packages, perquisites (perks), etc. of key managers.

## **8. Risk Factors**

It would be foolish to presume that a new business venture does not face any risk in the marketplace. The wise entrepreneur, does a thorough study of factors involved and takes pains to plan ahead to tackle such risks. The business plan, therefore, must contain an assessment of risk associated with the proposed venture. Risks may arise out of competition, weak infrastructure, internal weaknesses (weaknesses in the ownership, management etc.), technological advancement, etc. For e.g. the advent of the telephone and subsequently fax and internet has more or less made the telegraph obsolete in most parts of the world. Therefore, the entrepreneur must be aware of

current technology, the advancement path of technology and its impact on the proposed business.

## **9. Financial Plan**

The Financial Plan contains the financial blueprint for the venture. In general, the following areas are covered in the Financial Plan:

- The forecast sales and approximate expenses for the first three years of the business in summary form
- The monthly breakdown of forecast sales and approximate expenses for the first year of operation
- Cash Flow (projected) for the first three years in summary form
- Monthly projected Cash Flow for the first year of operation
- Working capital gap and means of covering this gap (short term borrowing, cash credit from the bank, public deposits, etc.)
- Projected Balance Sheet, summarizing the assets, liabilities, investments and retained earnings (reserves) projected at the end of the first year of business

## **10. Appendix**

The appendix contains reference material, lists of sources of information, letters from customers, commitment letters from suppliers, investors, banks, etc and is generally included in the Appendix. However, any document or other material included in the Appendix must have a reference in the main business plan.

### **1.3 Self Assessment Test**

1. Do you feel that entrepreneurs have really contributed in economic development? Discuss your views with supporting examples.
2. What is the general contribution of entrepreneurs in economy? Explain with special emphasis on Indian Economy.
3. What is Entrepreneurial Culture? Explain with reference to Personal Background, Motivation and Support Systems.
4. Short Notes
  - Personal Background
  - Childhood and Family
  - Education
  - Value Systems

- Age
- Work History

#### **1.4 Further Reading**

1. Entrepreneurship Development in India, Sami Uddin, Mittal Publications, 1989, ISBN, 8170991900, 9788170991908
2. Entrepreneurship Development in public Enterprises, Joseph Prokopenko, Igor Pavlin, International Labour Office, 1991 ISBN-10: 922107286X ISBN-13: 978-9221072867
3. Entrepreneurship Development, S. Anil Kumar, New Age International, 2003, ISBN:

## **UNIT-2 ENVIRONMENTAL ANALYSIS AND BASIC GOVT. FORMALITIES.**

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### **Learning Objectives**

- Analyze Environment– Searching and Scanning
- Identify Problems and Opportunities
- Define Business Ideas
- List and explain the Basic Government Procedures to Be Completed Structure

### **Structure**

- 2.1 Environmental Analysis – Searching and Scanning
- 2.2 Identifying Problems and Opportunities
- 2.3 Defining Business Ideas
- 2.4 Basic Government Procedures to Be Completed
- 2.5 Self Assessment Test
- 2.6 Further Reading

## 2.1 Environmental Analysis – Searching and Scanning

Environmental Analysis refers to the process of assessing external, uncontrollable factors that may affect the business plan. It is usually a part of the Marketing Plan and identifies, locates and analyses factors of risk and opportunity that would affect the business. Environmental Analysis also offers tentative solutions and strategies to tackle the risks identified.

The variables that are generally considered in Environmental Analysis are

- **Economy:** This covers areas like the trends in GDP, unemployment statistics (area-wise), disposable income, etc. Such data is gathered from government sources, independent studies by economists etc.
- **Culture:** This covers a gamut of variables from the impact of demographic shifts, attitude trends, cultural responses to safety measures, health, nutrition, environmental awareness, etc. Such information is usually gathered from secondary sources such as newspapers, magazines, independent studies, etc.
- **Technology:** The plan must study existing technology as well as trends in technology. While it is difficult to predict advances in technology, some linking of the trends can be gathered from resources committed by leading technology companies, an analysis of the time taken for a technology to reach the country within which the business is to operate, etc. For example, if the business is to be situated within India, a look at how long it is taking internet technologies, wireless technologies, mobile phone technology, etc. to reach India will give a reasonable forecast of the trend of technology.
- **Industry Demand:** This covers aspects as growth or shrinkage of the market entry trends of competitors, changes in consumer needs, etc. Such information usually available from secondary sources such as trade journals, chamber of commerce, etc.
- **Legal Aspects:** This area is concerned with the existing and future legislation governs the particular business that is to be started. Factors like restrict ownership structure, mandatory procedures, permissions, restrictions on advertising, safety regulations, etc. will affect the setting up of the business as well as the marketing strategy to be adopted. This is therefore another important factor of the environment to be considered.
- **Competition:** Large competitors would pose a major threat to any fledgling business. Even smaller competitors in sufficient numbers can so fragment the market that the entry of a newcomer could be very difficult. The entrepreneur must be aware of existing as well as future competition. Even if the business is a new one, offering a never before product or service, there is bound to be competition from persons offering similar products or services. Information about competitors can be gathered from newspapers, trade journals, chambers of commerce, etc.

- **Raw Material:** Since the manufacturing process begins with the procurement of raw materials, the entrepreneur must pay special attention to the availability of raw materials seasonal shortages, transportation problems, etc. This information can be gathered from trade journals, chambers of commerce etc.

The above were the external factors that the entrepreneur must take into consideration while assessing the environment. They are often uncontrollable factors and the entrepreneurs have to make contingency plans to circumvent the adverse conditions that may arise due to some of the above factors.

In addition to these external factors, there are often internal factors which, though more within the control of the entrepreneur must be foreseen and fine tuned for better running of the venture.

Some of these internal factors are:

- **Finance:** As we saw in the section on the business plan finances play a major role in the success of the business. Therefore the entrepreneur must pay close attention to factors like Cash Flow, Sources of Funds, Borrowing, Raising the Capital, etc.
- **Management:** The management team set up for the running of the business. The entrepreneur must crucial element of the internal environment of the business. The entrepreneur must ensure that there is proper delineation of authority and responsibility, channels of upward and downward communication, etc. The entrepreneur must evaluate and anticipate the need for special technical knowledge among the managers and take steps to ensure that such needs are fulfilled in a planned and organized manner.
- **Suppliers:** The entrepreneur must evaluate suppliers on criteria such as price, quality, timeliness of delivery, reliability, etc. In some cases, where suppliers are few, the degree of control exercised by the entrepreneur may be less. In such cases, a plan must be worked out to cater to contingencies like short supply, rise in prices etc.
- **Company mission:** The Mission Statement of the company is its guideline principle. It gives a definite goal for everyone to work towards. It actually helps define and describe the nature of the business and the means to be used to achieve corporate goals, in addition to define the main goal itself. Therefore, the entrepreneur must pay special attention to these aspects of the internal environment.

In brief, the sources of information on the environment (Environment Scanning) are:

- Family
- Colleagues
- Bankers



- Trade Journals
- Catalogues
- Customers
- Salesmen
- Business Councillors
- Books
- Chambers of Commerce and Guides
- Friends and Acquaintances
- Employees
- Magazines
- Newspapers / Newsletters

## **2.2 Identifying Problems and Opportunities**

As we have seen before, Entrepreneur is constantly looking for new ideas. They are always lookout for “wish statements”, where friends, acquaintances and even strangers might say “I wish I had...” or “I wish this would...” While most entrepreneurs do not have a formal “opportunity spotting mechanism”, they often rely on similar sources for ideas. Some of these sources are:

- Consumers
- Business Associates
- Distributors
- Technocrats
- Colleagues
- Friends
- Acquaintances

For example, consumers may provide feedback to the entrepreneur that a certain product, while good, does not fulfil certain other needs. This may give rise to a completely new product that takes all these needs into consideration. At other times, consumers may express a wish for something totally unrelated to the product, but where the entrepreneur has definite expertise

and resources, leading to the development of a new product.

In other cases, business associates may pass on feedback from their own consumers or from other business associates unknown to the entrepreneur. Thus the opportunity spotting network may be widespread, with needs filtering back to the entrepreneur.

However, merely hearing about a need is not enough. Others hear about needs too, but might not recognize them as opportunities. What sets the entrepreneur apart from the others in his ability to recognize a definite need and to see a way to fulfil this need? It is a coming together of perceived needs and knowledge of one's own expertise in a particular field that can be used to fulfil those needs.

The entrepreneur must also evaluate the opportunity on various bases before he decides to start a business venture to take advantage of the opportunity in question. The cause of the opportunity is important, since different causes give rise to situations with different "windows of opportunity". The Window of Opportunity refers to time period available for creating the business venture. Technological change, market conditions, government regulations, competition, etc. each create different windows of opportunity which the entrepreneur must recognize.

The opportunity must also fit in with the entrepreneur's own goals and personal expertise. If an entrepreneur is personally fired by a particular opportunity, it will spur him to put in the necessary time and effort to cash in on the opportunity. If the entrepreneur is only looking at the monetary rewards that will accrue at the end of setting up the business venture, he will quickly tire of the many steps that must be taken even before the business sees the light of day. Even if he does set up the business, it takes tremendous personal commitment and hard work before the monetary rewards start coming in. If the process itself is not to the entrepreneur's liking, the project is bound to fail.

Having spotted an opportunity, the entrepreneur does not directly rush into production. An analysis called Opportunity Analysis is conducted, to identify the problems associated with the opportunity as well as the conditions that make the opportunity feasible and profitable. Usually, the Opportunity Analysis studies the following:

- **The Need:** This is the market need than the product/service hopes to fulfil. In most of the cases, this need is fairly obvious. However, in some cases, a certain amount of research is required to identify the need.
- **Personal Observations:** These are observations and recorded experiences of the entrepreneur himself with regard to the market need identified above.
- **Social Conditions:** These are the social conditions that lie beneath the market need.
- **Market Research:** This refers to the data available from secondary sources that shed greater light on the market need. The entrepreneur has to gather all relevant market data

to test the feasibility of the proposed venture.

- **Existing Competition:** It is crucial to ascertain whether competition exists in the market that the entrepreneur wishes to enter. The strength of existing competition is also important, as it will indicate the level of effort necessary to carve a market segment.
- **Existing Patents:** Often, products that fulfil certain needs may already have been patented and simply be awaited a developer. The entrepreneur must ascertain whether a patent exists for two reasons. Firstly, he could save a lot of time, effort and money if the product has already been developed and patented. Secondly, he avoids litigation and costly court procedures in future.
- **International Market Condition:** If a business is to succeed, it must enter as many markets as it can, the international market being the most lucrative. Therefore, the entrepreneur must ascertain the situation in the international market.
- **Revenue Models:** The entrepreneur must be clear as to how the business will make money. Sometimes, the proposed business may, on the face of it, be just breaking even, but the benefits in terms of recognition and therefore spin off businesses may be greater

### 2.3 Defining Business Ideas

From the various needs that the entrepreneur comes across, only one or two will actually be turned into a successful enterprise. The entrepreneur spots a need and then applies his mind to generate ideas to fulfil that need. This is the Business Idea Generation Process. Some of the ways in which an entrepreneur generates business ideas are:

- **Brainstorming:** Brainstorming is a creative process where the entrepreneur simply puts down ideas without any attempt to evaluate them or check their feasibility. The aim is to generate as many ideas as possible without regard to their workability. i.e. quantity instead of quality. In the course of brainstorming, ideas being to “spark other ideas”. Thus, a simple idea leads on to another idea, which may lead on to another and so forth. When the judgmental aspect is suspended, ideas can flow free and fast, thus increasing the chances of hitting upon a winning idea.
- **Improving Processes:** In some cases, the entrepreneur may examine the way products and services are currently being produced and introduce innovations and improvements in the production process. This is also a means of generating business ideas and bringing creativity to the entrepreneurial process.
- **Expanding a Hobby:** Some entrepreneurs find that they are very good at a particular hobby and expand this hobby into a business. Some examples are Photography, Interior Designing, Fashion Designing, Card Making, Cookery, Printing, Graphic Designing etc.

- **Recycling Waste:** With people becoming increasingly concerned about the environment and the negative impact of waste on the quality of life, the conversion of waste into products of value has become a very lucrative business. Some examples are: using waste fibre to process into wood substitutes, recycling plastic waste into household and industrial products etc.
- **Revamping existing products:** Sometimes, through the use of new technology or by applying old technology more efficiently, existing products can be improved. This becomes a business idea on its own.

Once the process of ideation or idea-generation is complete, the entrepreneur must evaluate the ideas and select the one that has the most likelihood of success. Some of the criteria that entrepreneurs apply to select ideas are:

- **Technical competence of the entrepreneur:** The ideas must fit the technical background and understanding of the entrepreneur. This does not mean that the entrepreneur must be an expert in that particular field, but he must have at least a basic understanding of the field and what is required to run the business successfully.
- **Availability of raw material:** When raw material is available locally, the idea becomes much more feasible. If raw material has to be procured from distant places, it could create problems in manufacture. Therefore, business ideas that utilize readily available raw materials are far more likely to succeed.
- **Uniqueness of the product:** If the product fulfils a definite need and is not currently available in the market, it makes the product far more likely to succeed. For example, motorcycle riders frequently had to struggle to attach their briefcases to the bikes while riding. An entrepreneur then designed the “bungee cord”, a pair of elastic ropes with hooks at each end, which could easily be looped through the briefcase handle and then attached to the motorcycle. The product was an instant success.
- **Special skills of the entrepreneur:** If the business idea uses the specialized skills of the entrepreneur, whether in manufacturing, marketing or any other aspect, the idea is more likely to succeed.

Thus we see that, while opportunities may abound, it is the entrepreneur who identifies a definite need, generates ideas to fulfil that need, analyses the ideas and finally selects the business idea that is most likely to succeed in fulfilling the need while at the same time proving profitable for the entrepreneur.

## **2.4 Basic Government Procedures to be completed**

Government procedures and legal requirements vary with the type of business and the type of organization that the entrepreneur initiates. In general, some of the governmental procedures that need to be followed are:

- **Permission and Licenses:** Some products require the permission of the government before they can be manufactured and/ or sold. Some examples are arms and ammunition, alcohol, etc. The entrepreneur must find out which permissions are required and apply for them before beginning to manufacture the product.
- **Excise and other duties:** In some cases, excise duties, sales tax and other duties may be applicable to the product or service. The entrepreneur must ensure that these statutory duties are paid on the products and services handled by the business.
- **Registration of organizational documents:** Partnership deeds, Society documents, Memoranda and Articles of Association etc., have to be registered with the proper authorities before the business can commence operation. The entrepreneur must ensure that these legal formalities are taken care of before commencing.
- **Location permissions, Shop Act License etc:** In some cases, permissions from the local authority must be obtained before a property can be used for a particular business activity. For example, manufacturing operations involving machinery that causes vibrations cannot be started in older buildings. Similarly, pollution and zoning laws are in force, which prohibit the starting of certain types of industries in residential and other areas. For certain types of business, a Shop Act license or its equivalent has to be obtained and the conditions mentioned therein be fulfilled before or soon after starting operations. The entrepreneur must comply with these laws or risk stoppage of his business.
- **Employee State Insurance:** When the number of employees crosses a certain limit, the owners of the business must take a group insurance policy for the employees.
- **Provident Fund:** Similarly, the management must deduct the relevant Provident Fund contribution from the employees' salary and deposit this, along with the owner's contribution, into the relevant Provident Fund account.
- **Individual and Corporate Taxes:** The business must ensure that relevant personal taxes such as Income Tax, Professional Tax, etc., are deducted at source whenever required and deposited into the designated accounts at regular intervals. The business has to ensure that corporate income is correctly assessed and taxes are paid.

Thus, the legal requirements and procedures are a complicated matter that have several variables that change according to the type of business, the form of organization, the product or service being offered, the number of employees, etc. The entrepreneur's best course of acting is to consult the relevant expert, whether it is a Chartered Accountant, Excise Consultant, Sales Tax Consultant, etc.

## 2.5 Self Assessment Test

1. Explain in brief the elements of a Business Plan.

2. What is environmental analysis with reference to Entrepreneurship?
3. How does the Entrepreneur go about defining the Business Idea?
4. What are the basic governmental procedures to be complied with in starting an entrepreneurial venture in India?
5. Short Notes
  - Description of Venture in a Business Plan
  - Marketing Plan and Financial Plan
  - Importance of an Introductory Page in a Business Plan.
  - Process of Opportunity Analysis.
  - Industry Analysis

## **2.6 Further Reading**

1. Entrepreneurship Development in India, Sami Uddin, Mittal Publications, 1989, ISBN, 8170991900, 9788170991908
2. Entrepreneurship Development in public Enterprises, Joseph Prokopenko, Igor Pavlin, International Labour Office, 1991 ISBN-10: 922107286X ISBN-13: 978-9221072867
3. Entrepreneurship Development, S. Anil Kumar, New Age International, 2003, ISBN: