

Module 3

Chapter 5: Entrepreneur

Meaning of Entrepreneur:

- **An entrepreneur** is defined as a person who innovates, organizes, operates, and assumes the risk for a new business venture.
- The term entrepreneur has been derived from old French **entreprendre**, which means **to undertake**.
- A **venture** is a business enterprise involving risk in expectation of gain.

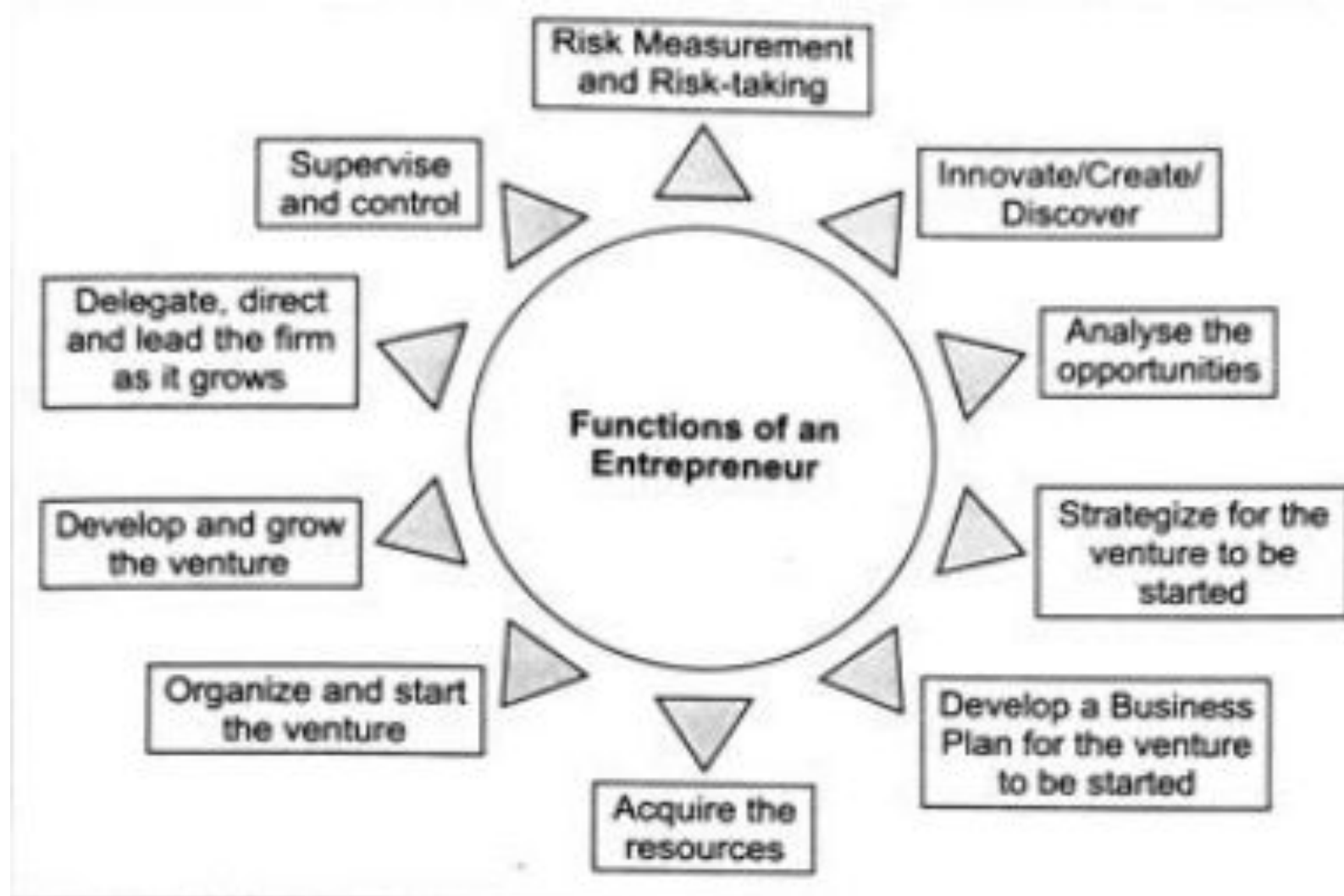
- A definition of entrepreneur as 4 components, which highlights the facet of an entrepreneur.
- 1. An **entrepreneur innovates**, i.e. comes up with a new concept, product or service.
- 2. An **entrepreneur organizes** a new business venture, i.e. initiates or start a new business enterprise.
- 3. An **entrepreneur operates**, i.e. runs new business venture and strives hard to sustain and grow it.
- 4. An **entrepreneur assumes the risk**, i.e. takes the responsibility of the outcomes of the business enterprise.

- Cantillon described the entrepreneur as a rational decision maker “who assume the risk and provided the management of the firm”.
- Thus, in this view the entrepreneur’s role encompasses the activity of managing the firm after having started it.
- “And what are they done: they have not accumulated any kind of goods, they have created no original means of production, but I employed existing means of production differently, more appropriately, more advantageously.
- They have carried out new combinations! They are the entrepreneurs. And their profit, the surplus to which no liability corresponds, is the entrepreneurial profit” by Schumpeter.

- “Whatever the type, everyone is an entrepreneur only when he actually *carries out new combinations*, and loses that character as soon as he has built up is business, when he settles down to running it as other people run their business” by Schumpeter.
- According to Schumpeter, **innovations**- the carrying out of new combinations-can be categorised into a 5 groups:
 1. Introduction of new good or of a new quality of a good,
 2. Introduction of a new method of production which is unproven,
 3. Opening up of a new market,
 4. Conquest of a new source of supply of raw materials or part manufactured goods, and
 5. Carrying out of a new organization of industry.

Functions of an Entrepreneur:

- There are various functions of an entrepreneur:



1. Risk measurement and risk taking:

- Palmer suggested that the entrepreneurial function primarily involves risk measurement and risk taking.
- The risks are not only in relation to the uncertainty to the success of the new business venture, but also on the personal and professional frontline career opportunities foregone for the sake of starting the new venture, family relations, and psychic well-being.
- Risk taking is not a desire to try one's gambling skill in Las Vegas.
- Instead, entrepreneurs prefer to take moderate risks in situations where they have some degree of control or skill in realising a profit.
- They do not prefer situations which involves either extremes of risk or uncertainty.

2. Innovate/create/discover:

- Innovation, creativity, and discovery are at the art of the functions of an entrepreneur.
- According to Schumpeter, the key ingredient of entrepreneurship is innovativeness of the individual and may not involve ownership at all.
- If the principal function of entrepreneur is to carry out new combinations of means of production, then these “combiners” need not necessarily be owners.

3. Analyse the opportunities:

- An entrepreneur as to have the opportunity-seeking style of management that sparks innovation(Peterson).
- The environment may throw up various types of opportunities for an entrepreneur to take advantage of in creating a new venture.
- Thus, the entrepreneur needs to analyse such opportunities from time to time and choose the most appealing one at the right time.

4. Strategize for a venture:

- Entrepreneur needs to strategize, i.e. perform long term planning for the venture to be started.
- He or she as to analyse the markets to penetrate, challenge tough competitions and devise ways to reach out to the potential customers etc.
- Thus, the entrepreneur should add the capability and skills to formulate strategies for the new business venture.

5. Develop a business plan:

- A Business plan is a written document containing the details about every aspects of the proposed business venture.
- It serves 2 purposes:
 - a. to provide a road map for the people internal to the organization, i.e. the employees, stakeholders, etc.; and
 - b. to convince the potential investors and financial institutions about the viability of the venture so that they may agree to invest in it.
- Thus, the entrepreneur as to be adapt and performing this critical function of drafting a convincing and viable business plan.

6. Acquire the resources:

- The entrepreneur has to acquire various types of resources like capital, manpower, machinery/equipment, land, buildings, etc. to start a venture.
- Many of these resources may not be easily available for the proposed new venture.
- Thus, the entrepreneur needs to have suitable skills to line up the resources as and when required.

7. Organize and start the venture:

- An entrepreneur should be a good organizer, i.e. he should deploy suitable resources in the right activities at the right time in order to avoid wastage and to optimally utilise the resources in starting-up the new venture.

8. Develop and grow the venture:

- Just starting the venture does not complete the role of the entrepreneur, as it is necessary to provide it with able support to develop and grow it in the times to come.
- Many of the startup ventures are not able to survive for long. Therefore, active involvement of the entrepreneur during the development and growth stage is important.

9. Delegate, direct and lead the firm:

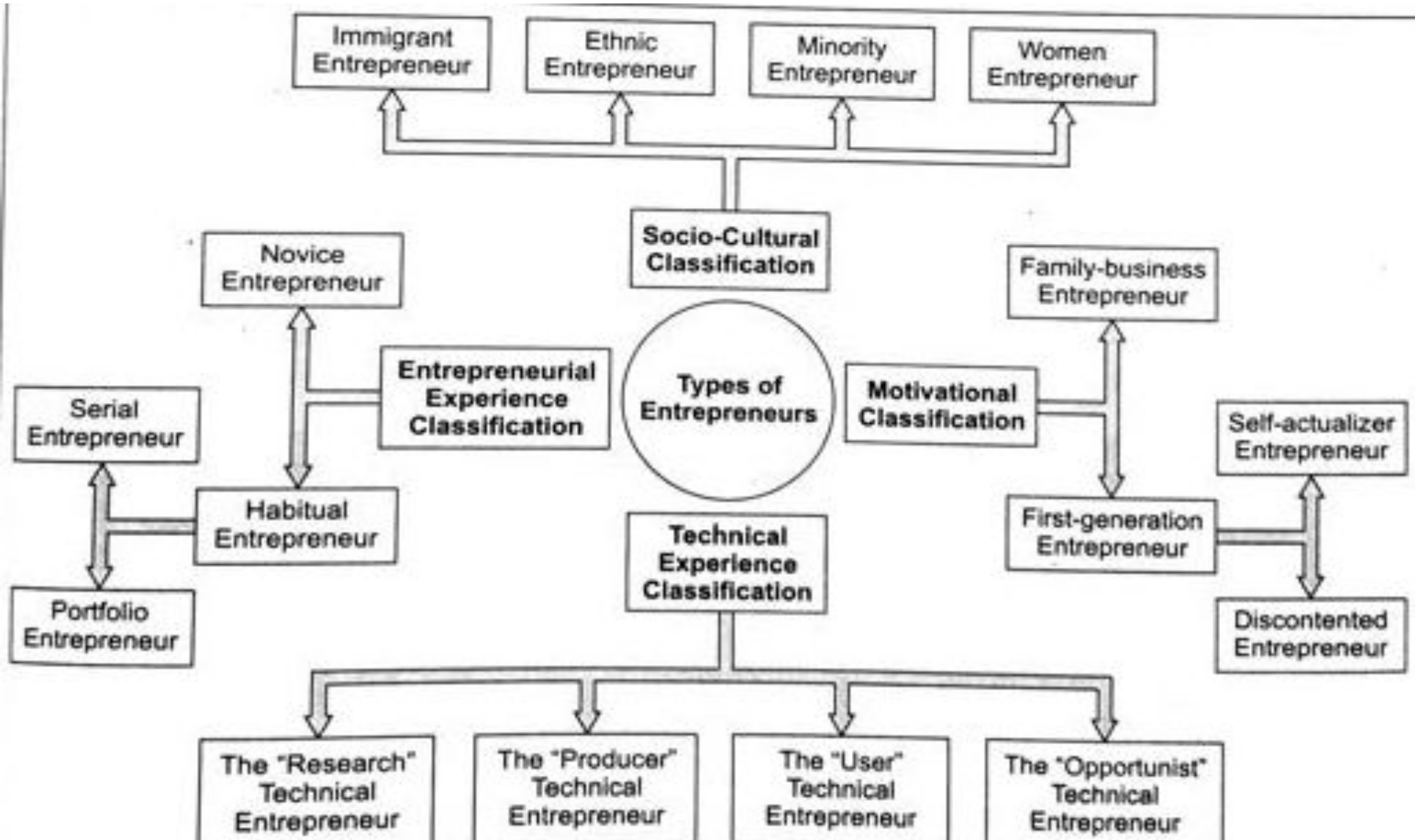
- During the growth stage of a new startup firm, it starts growing in size and thus, requires that the entrepreneur delegates the routine matters to other colleagues in the organization, while providing strategic direction to the firm as a leader.
- This function demands leadership skills on the part of the entrepreneur.

10. Supervise and control:

- Delegation of authority and responsibility of routine matters to the subordinates does not mean that the entrepreneur should not exercise any control.
- In fact, it becomes imperative to add suitable control mechanisms in place so that the entrepreneur may track the overall health of the enterprise.
- Occasionally personal supervision is also required to be done by the entrepreneur to ensure that all is well with the firm and the standard procedures created are being followed religiously by one and all.

Types of Entrepreneurs:

- The various types of entrepreneurs with 4 major classifications are:
 1. Socio-Cultural Classification
 2. Motivational Classification
 3. Technical Experience Classification
 4. Entrepreneurial Experience Classification



Types of Entrepreneurs

1. Socio-Cultural Classification:

- Specification of the types of entrepreneurs is based upon socio-cultural factors.

a. Immigrant entrepreneur:

- An individual who has a recent arrival in a country and starts a business as a means of economic survival is called an **immigrant entrepreneur**.
- This group may involve a migration network linking migrants, former migrants, and non-migrants with a common origin and destination.
- Example, Sabeer Bhatia of Hotmail.com fame would fall in this category of immigrant entrepreneur, as he migrated from Bangalore to the US and started this venture there. Later, Hotmail was acquired by Microsoft and Sabeer made a good money out of the deal.

b. Ethnic Entrepreneur:

- Ethnic entrepreneur have “.. a set of connections and regular patterns of interaction among people sharing common national background or migration experience”.
- The Marwaris humiliated long back from their native place Marwar and Rajasthan to create business in West Bengal would fall in this category.
- Prominent Marwari entrepreneurs are the Birlas, Singhanias, Lakshmi Niwas Mittal, Kishore Biyani(of Big Bazaar), etc.
- Similarly, the Parsi businessman in the western part of India originally hailed from erstwhile Persia (now Iran).
- Tatas are the most prominent Parsi, with their founder Jamshetji Tata as the first-generation entrepreneur.

c. Minority Entrepreneur:

- Minority entrepreneur is an entrepreneur who is not of the majority population.
- U.S. Federal categories include Black, person of Hispanic or Latin American ancestry, and person of Asian, Pacific Islander, American Indian, or Alaska Native descent.
- There are many Indian entrepreneurs in the U.S., who fall in this category.
- Amar Gopal Bose, a professor of MIT and the founder of immensely successful Bose corporation or qualify to fall in this category.

d. Women Entrepreneur:

- As the name of this type of entrepreneur suggests, it involves women at the forefront of entrepreneurship.
- Shri Mahila Griha Udyog Lijjat Papad is one such organization.
- They pride themselves in being a woman's organization-of the women, by the women, and for the women.
- It was started in 1959 with 7 lady members with borrowed some of ₹80 at Girgaum in Mumbai.
- Example: Kiran Majumdar Shaw (Biocon Limited)

2. Motivational Classification:

- This classification is based upon the motivation of the entrepreneur to start a new venture.
- Broadly, this classification as 2 categories, namely **first-generation entrepreneur** and **family-business entrepreneur**.

a. First-generation entrepreneur:

- First-generation entrepreneur does not have any family business prior to starting his/her own business venture.
- Dhirubhai Ambani(Reliance), Kiran Mazumdar Shaw(Biocon), N.R. Narayana Murthy(Infosys), Naresh Goyal(Jet Airways) all belongs to this category.

- First generation entrepreneurs are of 2 types:

- i. Self-actualizer entrepreneurs:

- Self-actualizer entrepreneurs are those who started their business driven by thirst for achievement and a sense of independence and autonomy. Example: Sunil Bharti Mittal(Airtel)

- ii. Discontented entrepreneur:

- Discontented entrepreneur is the one who is unhappy with present working conditions in the organization where he is serving and decides to move on to start his own enterprise.
- Example MD of Taj hotels, Ajit Kerkar was ousted unceremoniously by Ratan Tata in 1997 due to the growing discontent between the two.

- Immediately afterwards, Kerkar setup Tulip Star Hotels as an entity to manage and own properties.
- In a short span after equate the Taj group in 1997, the Tulip star either owns manages or markets a number of properties that includes the Bogmallo Beach Resort and the Nizmar Resort in Goa, the Kumarakom Lake Resort, Siena Village in Munnar, Renaissance, Cochin which are all in Kerala.
- Other properties under Tulip star is Capitol in Bangalore, Tulip Manohar in Hyderabad, and Revival in Baroda.
- Out of this the company has equity participation in Tulip star, Mumbai; and the Bogmallo beach resort in Goa.
- It also has stakes in the Juhu Centaur, Mumbai.

b. Family-business entrepreneur:

- Family-business entrepreneurs are the followers of family tradition role models.
- A typical example is that Aditya Vikram Birla, who created about 75 factories for U.S. business group in a career span of 25 years.
- Aditya Birla was the son of industrialist Basant Kumar Birla.
- This group is now known after him (Aditya Birla group) and managed by his son Kumar Mangalam Birla.

3. Entrepreneurial experience classification:

- This classification of the types of entrepreneur is based upon the extent of entrepreneurial experience.
- There are 2 broad categories in this classification- **novice** and **habitual** entrepreneurs.

a. Novice entrepreneur:

- Novice entrepreneurs can be viewed as individuals with no prior minority or majority business ownership experience, either as a business founder, an inheritor, or a purchaser of an independent business, but who currently owns a minority or majority equity stake in an independent business that is new, purchased or inherited.
- Example, N.R. Narayana Murthy was a novice entrepreneur when he founded Infosys on 1981 along with 6 of his colleagues.

b. Habitual entrepreneur:

- Habitual entrepreneurs are most often described as persons who have experienced owning at least 2 different firms whether temporarily(serial entrepreneurship) or simultaneously(portfolio entrepreneurship).

i. Serial entrepreneurship:

- Serial entrepreneurs can be viewed as individuals who have sold/closed a business in which they had a minority or majority ownership stake, and they currently have a minority or majority ownership stake in a single independent business that is either new, purchased or inherited.

- According to Ryan, serial entrepreneurs thrive off the psychological reward of making an impact as opposed to the wealth to be gained from operating successful ventures.
- These entrepreneurs are risk takers, having built sufficient wealth; they will invest their money on new ventures that often tend to be vague visions of an unsolved problem.
- They view failure as an experience, which will make them strong and bolder to take on new risks.
- Some entrepreneurs seem to thrive on the grueling early stages of starting and building a business, and prefer to hand it over for others to manage while they return to the startup process.
- Example, Sunil Bharti Mittal of Airtel.

ii. Portfolio entrepreneur:

- Portfolio entrepreneurs can be viewed as individuals currently have minority or majority ownership stakes in 2 or more independent business that are either new, purchased, and/or inherited.
- Kishore Biyani can be categorised into this category of entrepreneurs, as he owns big bazaar, pantaloon, add central supermarkets(all found by him) simultaneously.

4. Technical Experience classification:

- Jones-Evans came up with this classification based upon the previous **occupational background of the entrepreneur** in the technology sector.
- A technical entrepreneur is defined as the founder and current owner-manager of a technology-based business, i.e. primarily responsible for its planning and establishment, and currently having some management control of the organization.

a. The “research” technical entrepreneur:

- These entrepreneurs are involved in technological research activities at an academic institution or a research laboratory prior to creating their own venture.
- Professor Amar Gopal Bose of MIT is a typical example of this category.
- He was into researching acoustic systems and later, created his own corporation called Bose corporation.

b. The “producer” technical entrepreneur:

- These entrepreneurs have a history of involvement in direct commercial production or development of a product or process, usually in a large organization.
- Example of this type of entrepreneur is- Subroto Bagchi, the co-founder of MindTree Ltd.
- Bagchi worked as the chief executive of Wipro global R&D before co-founding MindTree in 1999.
- MindTree generated a revenue of rupees 12,375 million in a financial year 2008-09.

c. The “user” technical entrepreneur:

- Such entrepreneurs may have been involved as an end-users, in the application of the specific product or technology, but without direct involvement in the actual development of the technology.
- Example, Tulsi Tanti, the founder of wind power major Suzlon.
- Tanti was into his family business of textiles when power shortages prompted him to install two wind turbines as captive power.
- Later, buoyed by the success of this technology, he decided to switch over from textiles to wind power generation.
- Hence, Suzlon energy was born.

d. The “opportunistic” technical entrepreneur:

- As the name suggests, this kind of entrepreneur is an individual who has identified a technology-based opportunity and, while initiating and managing a small technology-based venture, either as little or no technical experience or whose previous occupational experience was within non-technical organization.
- Example, Azim Hasham Premji, inherited Wipro from his father, who was into oil business.
- Later, Premji realise the potential of information technology and ventured into this business.

Concept of Entrepreneurship:

- Entrepreneurship is the process of creating something different with value by devoting the necessary time and effort; assuming the accompany financial, psychological, and social risks; and receiving the resulting reward of monetary and personal satisfaction.

Evolution of Entrepreneurship

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- The various stages in the evolution of order entrepreneurship are broadly classified into 2 stages:
 - a. Ancient and medieval roots
 - b. Modern entrepreneurship thought

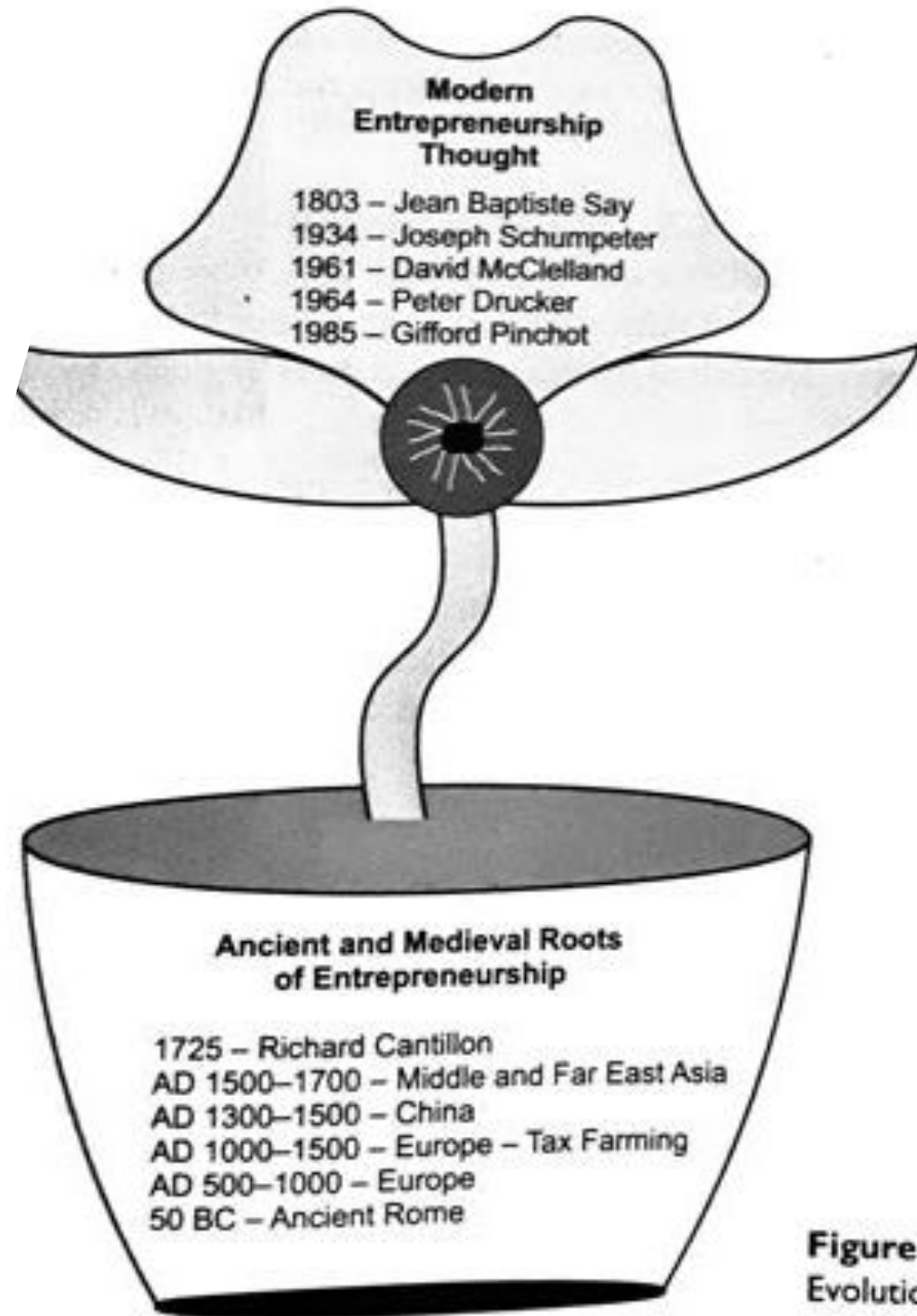


Figure 5.4
Evolution of Entrepreneurship

Ancient and Medieval roots of Entrepreneurship:

a. 50 BC:

- Entrepreneurship started from time immemorial, however in the recorded history, the oldest reference can be tracked back to ancient Rome around 50 BC.
- During that time, entrepreneurship and business activity was not considered prestigious.
- It was usually left to the former slaves to get into commercial activities.
- Wealth generation append primarily, either by renting the land or by earning interest on loans.

b. AD 500-1000:

- Europe experienced a radically new expression of entrepreneurship during AD 500-1000.
- This was in the form of acquisition of land, castles, and other assets through warfare.
- Thus, kings and barons took winning battles and wars as an entrepreneurial means to wealth and prosperity.

c. AD 1000-1500:

- During AD 1000-1500, Europe witnessed a drastic revamping of entrepreneurial activity, and fields like architecture, engineering, and farming provided healthy bases for entrepreneurship.
- A new innovation in tax collection called tax farming came into existence during this time.
- In this approach, bidding for tax collection on behalf of the monarch was done and the highest bidder used to get the contract.
- If the winner of the contract used to collect more tax than the bid offered by him, the excess amount used to be net profit for him.

d. AD 1300-1500:

- During AD 1300-1500, entrepreneurial activity experienced major setbacks in China, as the rulers used to confiscate the assets of wealthy businessman during times of financial difficulties faced by the empire.
- Engaging in PowerShell activities was deemed as wealth accumulation and was looked down upon.

e. AD 1500-1700:

- Middle and Far East Asia was witnessing the prime of experimental and skill-based knowledge during this. When the western world was still catching up with this trend.
- The status of the merchant became high in the Muslim dominated Arabic countries and entrepreneurship flourished in this region with common language and central location in the world.

f. AD 1725:

- Richard Cantillon was an Irish economist, we spend a major part of his life in France.
- Is credited with highlighting the role of the entrepreneur in economics.
- He was the first to define an entrepreneur as the “agent who buys means of production at certain prices in order to combine them into a new product”.

Modern Entrepreneurship Thought:

1. **Jean Baptiste Say** (1767-1832), a French economist and businessman, is known for his idea that ownership is distinct from entrepreneurship. Thus, in his view, a person can be an entrepreneur despite somebody else providing the capital for the entrepreneurship venture. He was a staunch supporter of free trade and competition.
2. **Joseph Schumpeter** (1883-1950) was an Austrian economist, who is known for the term creative destruction coined by him. In his view, the entrepreneurs, by virtue of bringing about radical innovations/transformations, render the existing system of established organizations obsolete. This phenomenon is termed as creative destruction.

3. **David McClelland** (1917-1998) was an American physiological theorist, who defined an entrepreneur as “an energetic, moderate risk taker”. In his view, an entrepreneur is primarily motivated by an overwhelming need for achievement and strong urge to build. His contributions to the field of entrepreneurship focus on the attributes of an entrepreneur and the motivations behind entrepreneurial behaviour. His masterpiece “The Achieving Society” hinges on these ideas.
4. **Peter Ferdinand Drucker** (1909-2005), an Austrian-American scholar, portends that entrepreneur maximizes opportunities. He emphasized that entrepreneurship is about taking risks.

5. **Gifford Pinchot** is an American entrepreneur and consultant, who coined the term intrapreneurship and defined it as “an entrepreneur within an already established organization”. He is known for his best-selling book- “Intrapreneuring: Why You Don't Have to leave the Corporation to Become an Entrepreneur”.

Development of Entrepreneurship:

- The origin of programmes for the development of entrepreneurs in India can be traced to the pioneering efforts of the Small Industry Extension Training Institute(SIET), now known as the National Institute for Micro, Small and Medium Enterprises (NIMSME) with whose collaboration, Professor David McClelland of Harvard University attempted to establish that achievement motivation could be developed among adults.
- In a developing country like India, there ought to be some issues in entrepreneurship development.

- According to Prahalad(2004), inability and inconsistencies in enforcing laws, bureaucratic interpretation of rules, lack of firm political commitment, lack of accountability, hooliganism and political musclemanship, lack of rule of law, lack of control of corruption are significant deterrents to entrepreneurship development in developing countries.

The figure shows the ways in which entrepreneurship development has been done in India.



1. Governmental/non-governmental support bodies:

- The **National Institute for Entrepreneurship and Small Business Development** (NIESBUD) was established in 1983 by the Ministry of Industry, Government of India, as an apex body for coordinating and overseeing the activities of various institutions/agencies engaged in entrepreneurship development, particularly in the area of small industry and small business.
- In 1983, the **Entrepreneurship Development Institute of India**(EDI), an autonomous body and not-for-profit institution, was set up.
- It was sponsored by apex financial institutions, namely the IDBI Bank Ltd, IFCI Ltd, ICICI Ltd, and the SBI.

- The possibility of establishing a mechanism to develop entrepreneurs may have originated from the encouraging results of an innovative scheme of financing new entrepreneurs, begun in India in 1968, that relied on the competence of the individual and the viability of the proposed project rather than on the more conventionally applied criteria relating to the applicant's financial background.
- Under this scheme, a wide variety of projects were established by entrepreneurs from non-business communities and castes.
- Some evidence of effectiveness of entrepreneurship development (ED) has already been cited.
- Example: A 1984 sample study of forty units set up by trained entrepreneurs in the state of Gujarat.

2. Incubation Facilities:

- Premier business schools and technical institutions in India have entrepreneurship centres, many of which provide incubation facilities to start-up small businesses.
- An *incubator* is a facility designed to assist start-up companies, generally with respect to providing knowledge and technical assistance.
- Example: Nadathur S. Raghavan Centre of Entrepreneurial Learning (NSRCEL) at the Indian Institute of Management Bangalore (IIMB) provides such incubation facilities in the form of an office, computing and telecommunication facilities, and faculty consultancy support at nominal charges.

- Similarly, Wadhvani Centre for Entrepreneurship Development (WCED) at the Indian School of Business (ISB), Hyderabad, has established an incubation center called K-Hub with the support of the Government of Andhra Pradesh.

3. Educational Programmes:

- Entrepreneurship is increasingly becoming a popular choice or as an elective in the MBA programmes of business schools in India.
- Example: about 8% of the MBA students at ISB Hyderabad recently majored in entrepreneurship.
- In addition, educational programmes, exclusively to develop entrepreneurs in the country, have been created by some business schools.
- With an aim to undertake training, research and consultancy activities in the small industry sector focusing on entrepreneurship development, the Indian Institute of Entrepreneurship (IIE) was established in the year 1993 at Guwahati by the erstwhile Ministry of Industry, Government of India as an autonomous National Institute.

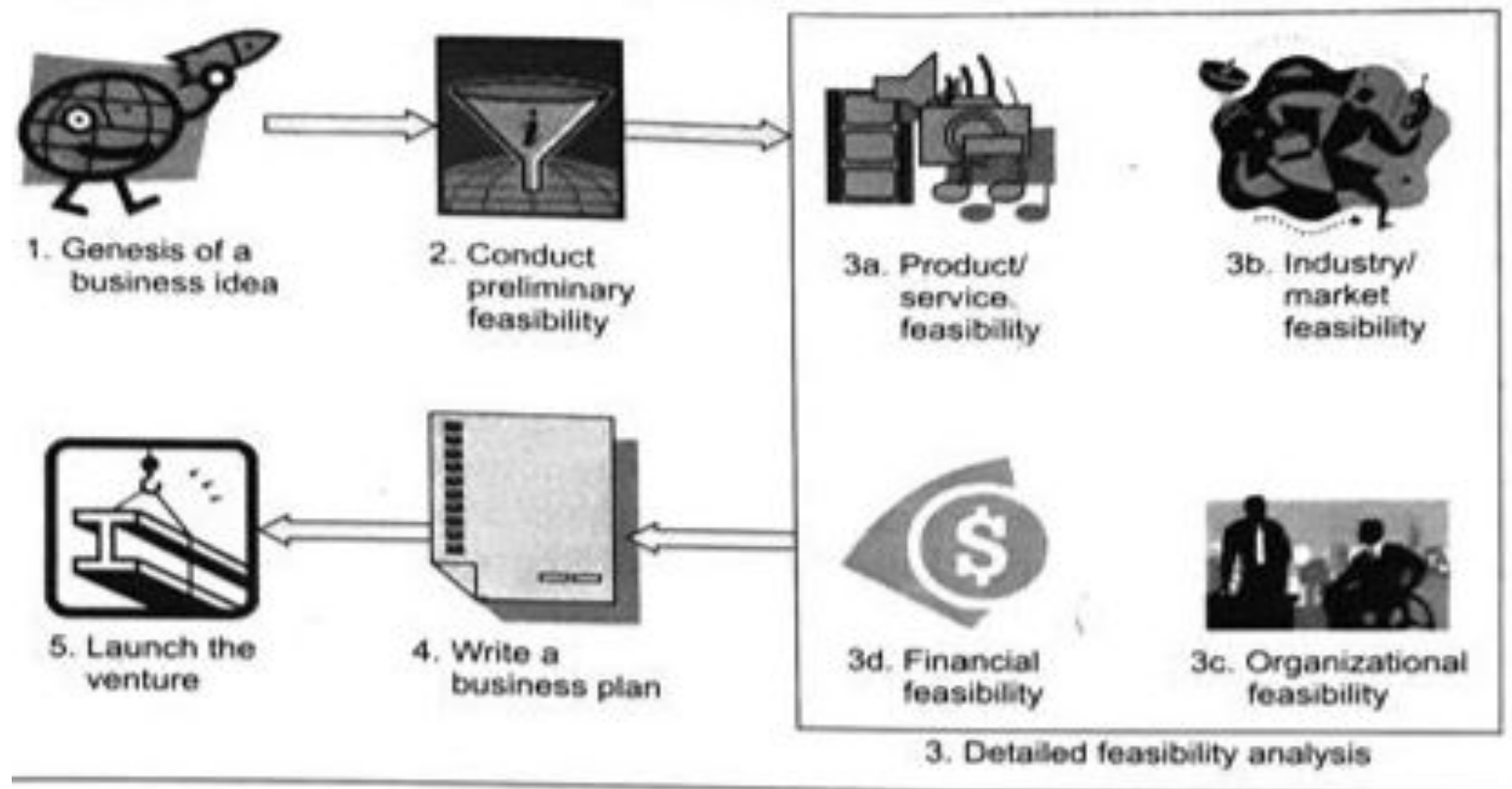
4. Entrepreneurship Networks:

- **TiE- The Indus Entrepreneurs-** was found in Silicon Valley in 1992 by successful entrepreneurs and professionals with roots in the Indian subcontinent.
- TiE it is also known as **Talent Ideas and Enterprise** and is today spread over 53 chapters in 12 countries. It has over 12,000 members and 1800 plus charter members-including top entrepreneurs, venture capitalist, private equity, angels, law firms, technology and management professionals.
- TiE's mission is to foster entrepreneurship globally through mentoring, networking, and education.
- It claims itself to be the world's largest not-for-profit organization for entrepreneurs.

- The national entrepreneurship network (NEN), found in 2002, is a not-for-profit initiative of the Wadhvani Foundation, working to inspire, educate and support the next generation of high growth entrepreneurs in India.
- NEN was co-founded by 5 of India's premier academic institutions: IIT Bombay; IIM Ahmedabad; SP Jain Institute, Mumbai; IBAB, Bangalore; and BITS Pilani.
- NEN works with over 425 top-tier academic institute members; has developed a pool of more than 950 entrepreneurship faculty members, growing the number from an initial group of about 50 across the country; Aslam inched more than 350 student e-cells; and reaches over 4,00,000 young people across 30 cities in India.
- NEN Provides critical support and community to India's growing pool of young and future entrepreneurs.

Stages in Entrepreneurial Process:

- Barringer and Gresock identified various stages in the entrepreneurial process:



1. Genesis of a business idea:

- This is the first step in the entrepreneurial process and requires critical thinking on part of the entrepreneur to select the most viable business ideas from a set of available options.
- This not only includes critical analysis of the merits and demerits of the innovative product/service created by the entrepreneur, but also includes the study of the market potential, marketing, finance, human resources, and operational issues related to the business idea.

2. Conduct preliminary feasibility:

- The preliminary feasibility involves a quick assessment about the potential of the business ideas and screening out an idea with the highest potential.
- This step is necessary to ensure that comprehensive and detailed feasibility analysis to be conducted in the next step is done only for the single best idea.
- A checklist proposed by Timmons and Spinelli helps in selecting the high-potential idea within a couple of hours on the basis of the following four criteria:
 - a. Market and market related issues,
 - b. Competitive advantages,
 - c. Value creation and realization issues, and
 - d. Overall potential.

3. Detailed feasibility analysis:

- Having screened out an idea with high potential, it is subjected to the detailed feasibility analysis which may take a couple of days or weeks.
- The detailed analysis is helpful in making suitable modifications in the business idea before taking it to the business plan stage.
- The detailed analysis comprises of the following components:

3a. Product /service feasibility

3b. Industry/Market feasibility

3c. Organizational feasibility

3d. Financial feasibility

3a. Product /service feasibility:

- The feasibility of product/service is performed by concept testing, i.e. showing the concept or idea to a sample group of potential customer to gauge their reaction, to take their suggestion for further development of the concept and to assess its sales potential.
- A prototype or a sample unit of the product can also be created in simple form depending upon the cost involved. Otherwise, computer simulation or design can be used.
- A rough assessment of the production or service delivery process to be followed should also be done to avoid abrupt revelation about infeasibility of production at the later stage when substantial investments of time and effort have been made.

3b. Industry/Market feasibility:

- The feasibility analysis of industry/market involves 3 considerations.
1. How attractive is the market for the new business idea or concept. Market segment experiencing growth, but high profit margins and less competition would naturally be attractive for the entrepreneur.
 2. Efforts should be expanded to identify the niche within a large market, i.e. A narrow segment of customers with a common expectation from the product or service. This way the entrepreneur can buy some time for establishing as venture before competing add on with existing stabilised players in the market.
 3. A candid assessment of the overall market potential of the new concept should be made in a realistic manner.

3c. Organizational feasibility:

- Two issues should be addressed here:
 - a. an assessment about the organizational prowess or capability of the initial management team, and
 - b. the availability of non-financial resources (like office space, talent pool in the area where the venture would be started, etc.).
- Organizational prowess means passion for the new business idea, professional managerial qualification, prior experience and understanding of the market in which the venture would be created.

3d. Financial feasibility:

- The total initial cash needed for starting the venture and overall financial attractiveness of the investment are at the heart of financial feasibility.
- It should be kept in mind that very rarely do new startup ventures are able to secure funding from the financial institution as debt or are able to find equity investors.
- Therefore, very clear identification about the sources of sufficient funds to cover all the capital expenditures and operating expenses to generate first unit of the sales should be done.
- Financial attractiveness of investment should be assessed by estimating the expected rate of return on investment. This estimation for the new concept would be subjective and can be based upon comparison with similar existing businesses.

4. Write a business plan:

- The business plan is written document containing the details about every aspect of the proposed business venture.
- It serves two purposes:
 - a. to provide a “road map” for the people internal to the organization, i.e. the employees, stakeholders, etc., and
 - b. to convince the potential investor and financial institution about the viability of the ventures so that they may agree to invest in it.
- A good business plan is based upon comprehensive data and analysis rather than upon gut-feel or judgement of the entrepreneur.
- It should preferably include details about the screening process and feasibility studies conducted by the entrepreneur to augment its authenticity and appeal.

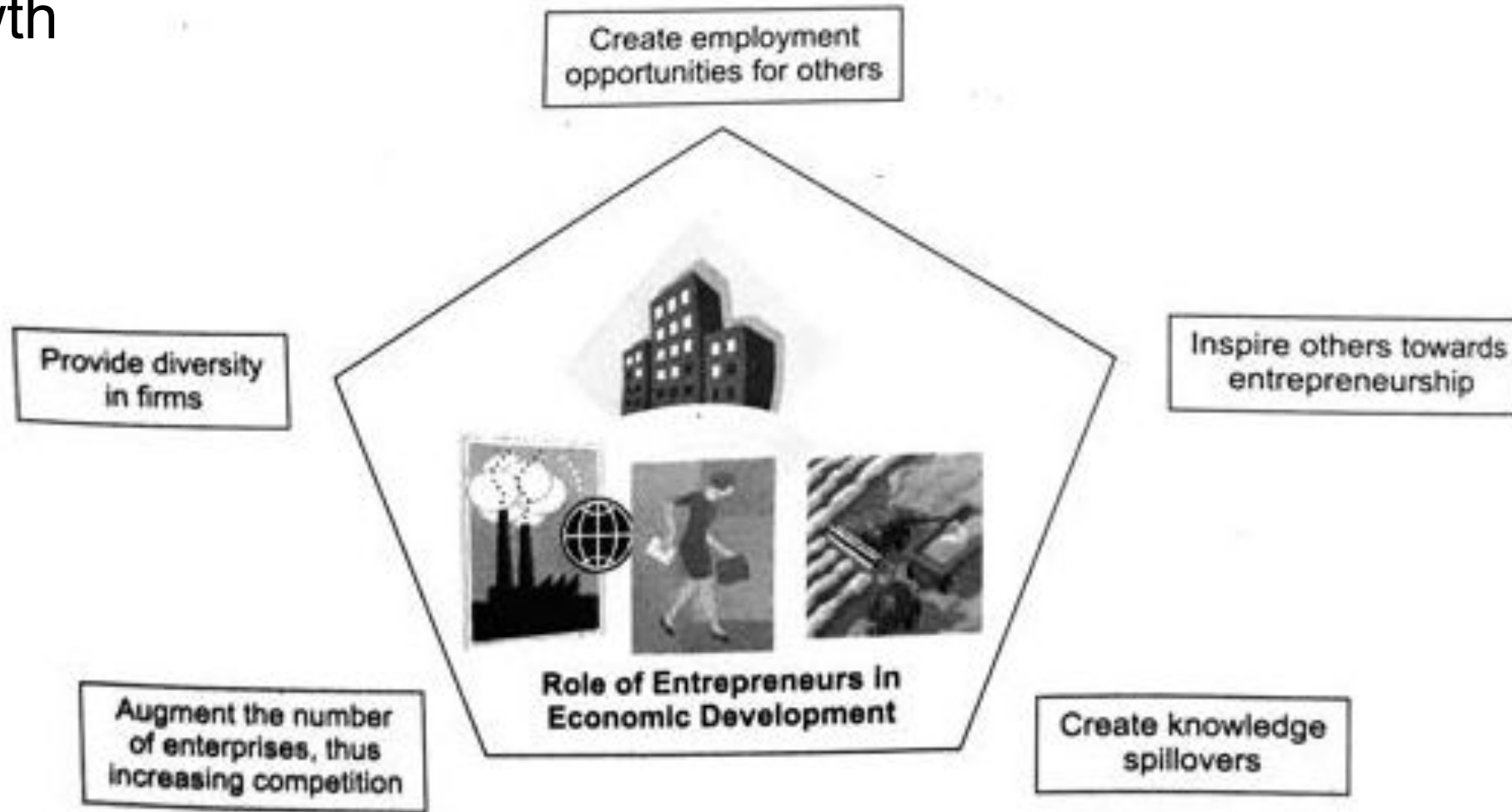
5. Launch the venture:

- This is the final step in the entrepreneurial process and involves launching the venture as per the business plan.
- Due to the uncertainties of the business environment, the entrepreneur should be prepared to face hurdles and challenges during the launching of the venture as well as in the subsequent periods of time.

Role of Entrepreneurs in Economic Development:

- Entrepreneurs play an important role in the economic development of a region.
- From the fall of Rome (AD 476) to the 18th century, there was virtually no increase in per capita wealth generation in the West.
- With the advent of entrepreneurship, however, per capita wealth generation and income in the West grew exponentially by 20% in the 1700s, 200% in the 1800s, and 740% in 1900s.

The figure shows the various ways in which the entrepreneurial activity results in economic development and growth



Role of Entrepreneurs in Economic Development:

1. Create Employment opportunities:

- By creating a new venture, entrepreneurs generate employment opportunities for others.
- Unemployment is a major issue, especially in the context of developing economies like India.
- Educated youth often are unable to get a suitable employment for themselves.
- Thus, entrepreneurs do a Yeoman's service by not only employing themselves into their entrepreneurial ventures, but also by employing others.
- Within the last 15 years, fortune 500 companies and large corporations have endured major retrenchment and eliminated millions of jobs, whereas discovering in the entrepreneurial sectors have yielded an average of 6,00,000 new incorporations per year and generated millions of job opportunities.

2. Inspire others towards entrepreneurship:

- The team created by an entrepreneur for his new venture often provides the opportunity for the employees-cum-teammates to have a first-hand experience of getting involved in an entrepreneurial venture.
- This often leads eventually for these employees to become honours themselves after being inspired by their early experience of working for an entrepreneur.
- Thus, this process helps and forming a chain reaction of entrepreneurial activity which directly contributes to the health of the economy.

3. Create knowledge spillovers:

- When a scientist, an engineer, or a knowledge worker leaves an organization to create a new firm, knowledge acquired by her in the organization gets spilled over to the new firm.
- Hence, entrepreneurship service as a mechanism by which knowledge spills over to a new firm in which it is commercialized.
- Naturally, the new firm gets benefitted by the experience and knowledge gained by the founder in her erstwhile organization.
- Knowledge is embodied in a worker and the new firm as created through the workers effort to appropriate the value of knowledge by way of innovative activity.

4. Augment the number of enterprises:

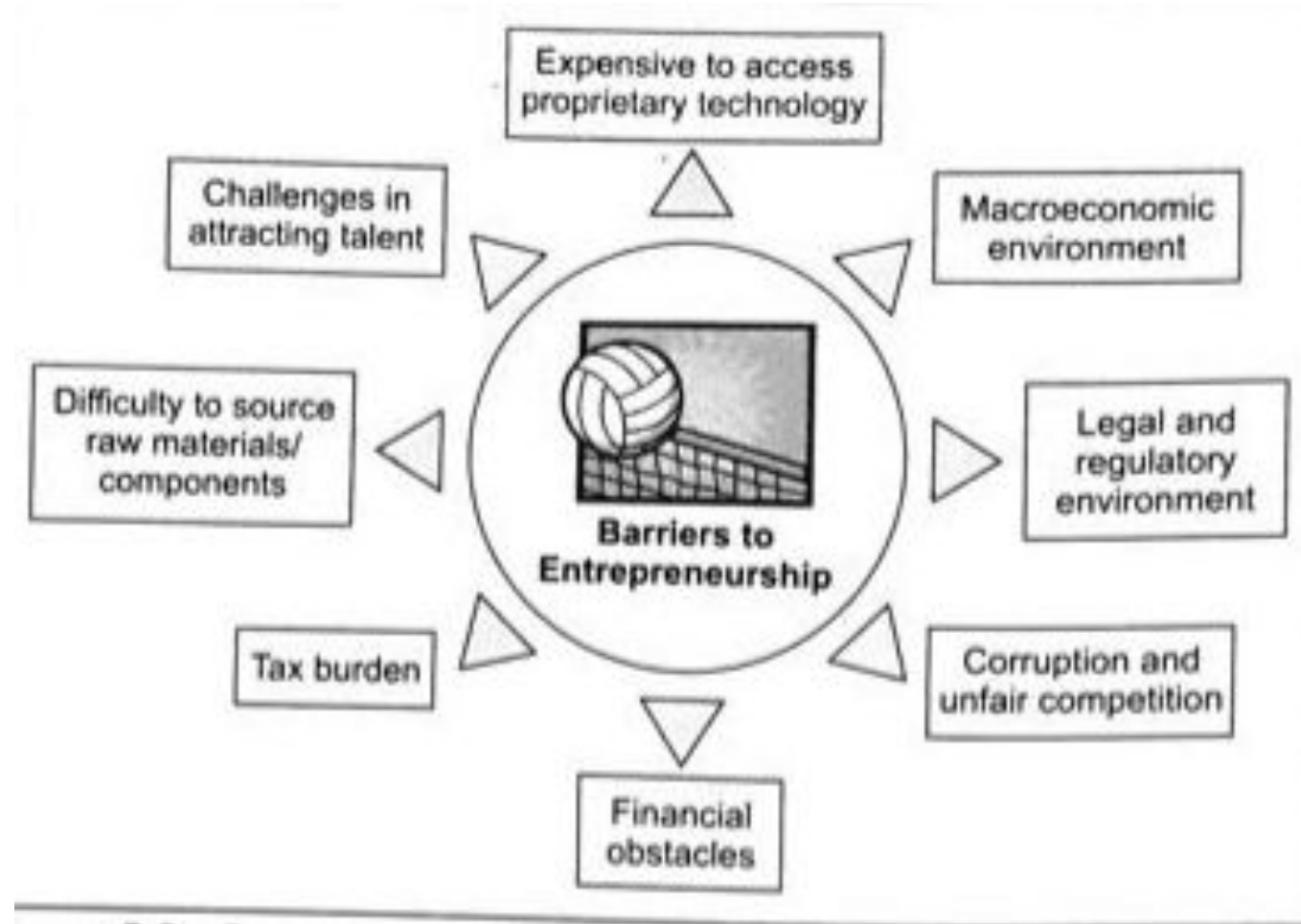
- When new firms are created by entrepreneurs, the number of enterprises based upon new ideas/concepts/products in a region increases.
- Not only does an increase in the number of firms enhance the competition for new ideas, but greater competition across firms also facilitates the entry of new firms specialising in a particular new product niche.
- This is because the necessary complementary inputs are more likely available from small specialist niche firms than from large, vertically integrated producers.

5. Provide diversity in firms:

- Entrepreneurial activity in a region often results in creation of varieties of firms in a region.
- These firms operate into diverse activities, and it has been found that it is this diversity in firms which postulates economic development and growth rather than homogeneity.
- According to Jacobs, it is the exchange of complementary knowledge across diverse firms and economic agents that yields an important return on new economic knowledge.

Entrepreneurship- Its Barriers:

- Krasniqi identified various barriers to entrepreneurship:
1. **macroeconomic environment**
 2. **legal and regulatory environment**
 3. **corruption and unfair competition**
 4. **financial obstacles**
 5. **tax burden**
 6. **challenges in attracting talent**
 7. **difficult to source raw materials**
 8. **expensive to access proprietary technology**



1. Macroeconomic environment:

- Macroeconomic environment conducive to entrepreneurship is dependent upon the policies of the government in supporting private participation in business.
- Macro means large and the term macroeconomic means the larger view of the economy.
- It is different from the micro(small) view which concerns a firm or a company in the market.
- For example, in India the process of liberalization started during the mid-1980s whereby the government started the process of encouraging foreign MNCs how to create joint ventures with Indian domestic companies.

- This process created a macroeconomic environment in which many new small and medium enterprises(SMEs) evolved to become suppliers and vendors for the joint ventures so created.
- Prior to that, the macroeconomic environment in India was a big deterrent to entrepreneurship, as there was number freedom for entrepreneurs to set up their ventures without taking the “licenses” (approval) from the government. That period is often known as “Licence Raj”.
- Macroeconomic policy also affects the entrepreneur’s decision to invest, especially in products that require a longer time to produce a return.

2. Legal and regulatory environment:

- The legal and regulatory environment for entrepreneurship is found by registration and licensing procedures, and contractual laws, property rights laws, bankruptcy and collateral law, real estate regulations and labour laws.
- If the administrative procedures and laws are unclear, time consuming and cumbersome, they would pose barriers to entrepreneurship.
- If these procedures and laws are changed/revised frequently, it would create a sense of uncertainty and risk in the minds of entrepreneurs trying to establish a new business venture in the region.

3. Corruption and unfair competition:

- A corrupt economy can lead to unfair competition, which in turn can become a major deterrent to entrepreneurial activity.
- Excessive regulations and approvals from the government required by entrepreneurs may make the government officials corrupt.
- They develop this attitude of taking bribes from entrepreneurs in return for speedy approvals.
- In this way, honest entrepreneurs suffer due to unfair competition from other entrepreneurs who get early approvals due to “under the table” payments to government officials.
- An unhealthy environment develops, which deters new entrepreneurs from setting up new ventures.

4. Financial obstacles:

- Startup ventures are usually dependent upon capital to be sourced from banks and financial institutions.
- It has been observed that in many economies, banks are reluctant to give loans to small startup firms.
- Sometimes, banks often have gender bias.
- Banks often seek ICC collateral amount or charge high interest rates, which pose a major obstacle to entrepreneurs.

5. Tax burden:

- In many regions, the government charges high taxes from even small startup ventures and has tedious procedures for compliance of tax submission formalities.
- In order to promote entrepreneurship, the governments would need to have rational tax structures with easy tax submission procedures.
- Otherwise, high taxes add to the cost of operations for the startup company, thus weakening its competitive position for survival and growth.
- High taxes in a region also pose entry barrier for entrepreneurs.

6. Challenges in attracting talent:

- This is another big issue faced by a small startup companies.
- The best of talent in engineering, management and other disciplines wants to work for multinational corporations(MNCs) rather than for small startups.
- This attitude of professionals makes it difficult for entrepreneurs to attract them for their entrepreneurial ventures.
- Thus, there is a dire need to create an ecosystem for entrepreneurship so that budding professionals start valuing their association with entrepreneurial ventures compared to working for the MNCs.

7. Difficult to source raw material:

- For entering a market with a product, an entrepreneur has to identify if the suppliers of raw materials and components existing in the market have adequate capacity or are willing to expand capacity to meet the requirements of a new player in the industry.
- If not, then it becomes imperative to establish new suppliers in the market, which may be cumbersome for the entrepreneur.
- Thus, this difficulty to source raw materials and components often deters entrepreneurs to enter the market.

8. Expensive to access proprietary technology:

- Kuratko & Welsch cite the expenses to access proprietary technology as one of the barriers to entrepreneurship.
- For example, big companies like Texas Instruments invent breakthrough technologies which have the potential of applications in many fields.
- They give licenses of such state-of-the-art technology to other companies worldwide to develop and market products based upon it.
- They charge hefty license fee from such companies in return.
- Entrepreneurs find it hard to arrange for such staggering license fee and thus, face entry barriers in such fields.