

1.1 What is a business?

Starting a business

The failure rate for new businesses is high. However, you should not read too much into the statistics. A “failed” business is one that is no longer operating. This could be for a variety of reasons, only some of which are really failures.

Business success depends on the internal strengths and weaknesses of the business itself. The internal strengths and weaknesses have to do with the four business functions or processes we examined in [Section 1.1.1 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-nature-and-role-of-business-id-36829\)](https://study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-nature-and-role-of-business-id-36829). These are human resources, financing, marketing and operations.

A business has a good chance of success when:

- there is a skilled and collaborative team of employees in place;
- there is enough funding to run the business;
- the marketing has been researched well; and
- the operations are efficient and resilient.



Figure 1. A skilled and collaborative team of employees can help a new business be successful.

Credit: Tom Werner, Getty Images

However, the opportunities and threats of the external environment matter too. Success or failure depends on changes in the sociocultural, technological, economic, environmental, political, legal and ethical conditions. Even if a business has strong internal factors, the business can fail where external conditions are very poor. The COVID-19 pandemic showed us just how embedded businesses are in their social and environmental context.

We will use two tools called SWOT and STEEPLE ([Section 1.1.6 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-swotsteeple-analysis-id-36834\)](https://study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-swotsteeple-analysis-id-36834)) to understand the internal and external factors affecting the work of a business.

Entrepreneurial mindset and skill-set

Despite the risks, many people start new businesses every year. People who start businesses are known as entrepreneurs. Entrepreneurs often say that starting a business is one of the most exciting and interesting things they have ever done.

Entrepreneurship requires creativity and passion to make change. Entrepreneurs seek out change and are willing to take risks. The skills of an entrepreneur and the skills of other changemakers in society are very similar. You would see entrepreneurs

undertaking the same kinds of research and action as social and political activists, or local neighbourhood organisers.

The work of entrepreneurs and other changemakers involves:

- understanding communities and their problems;
- designing and planning solutions;
- taking action; and
- sharing and growing actions and ideas to increase impact.

In fact, these are the same steps that you might have taken in school project work in the past. You might use these steps in Design or Art courses, or for upcoming CAS work in your IB Diploma Programme. This mindset and skill-set can be used for a number of important professional and personal goals. In addition to starting a new business, someone with this mindset and skill-set could also:

- create new products in an existing enterprise they work for (as an intrapreneur);
- solve a major social or environmental challenge, like improving urban housing or reducing urban air pollution; or
- improve their personal life, perhaps through a career change.



Figure 2. Post-it notes are an often-cited example of a product created through intrapreneurship at the company 3M.

Credit: Wissanu Phiphithaphong / EyeEm, Getty Images

Making connections

There are a number of organisations offering online courses and materials that can help you develop entrepreneurial or changemaking skills. Here are a few to check out:

- Acumen Academy (<https://acumenacademy.org/>) – online courses in social change and entrepreneurship offered by this social venture capital firm. Some courses are free; others are offered for a low price.
- YCombinator Startup School for Aspiring Founders (<https://www.startupschool.org/aspiring-founders>) – YCombinator is one of the world's most famous seed funding companies. The company has developed a course specifically for aspiring entrepreneurs.
- The Youth Mayors Field Guide (<https://sites.google.com/uwcmaastricht.nl/youth-mayors-curriculum/home>) is a free resource, written for secondary students, that can help you with a changemaking project. The skills and tools are the same as for starting a business, and there are some business-specific tools.
- The EU's Blues project (<https://eblues.eu/what-why-how-your-road-to-entrepreneurship/>) provides an online course for learning about entrepreneurship.
- The EU Young Entrepreneurs (<https://www.erasmus-entrepreneurs.eu/>) exchange program is an opportunity for young entrepreneurs to experience

Reasons for starting a new business

Individuals start businesses for a number of reasons, sometimes more than one, as described in **Table 1**.

Table 1. Reasons for starting a business.

Reason	Explanation
New business idea	An entrepreneur may have a new idea for a product. This new idea can motivate them to start a business. This is what most people think of when they imagine entrepreneurs.
Passion to make change	Many entrepreneurs are good at identifying and understanding problems. They can also see opportunities for change. They may have a powerful sense of purpose in their work and are highly motivated. This inner drive to make positive changes can be quite addictive, resulting in entrepreneurs who regularly start new businesses. These are known as serial entrepreneurs.
Market need	Other entrepreneurs may see a need in a market. This is not necessarily about creating a new product or service. Instead, it is about fulfilling the needs of a group of people. For example, if a town does not have a car repair shop, a car mechanic could set up a business to serve that need.
Earning a living	Some individuals set up a business simply to make money for themselves and their families. There may not be a suitable job for them from an existing business. So, they take action to create and run a business to support themselves.

Reason	Explanation
Greater financial reward	Talented individuals may set up their own business to earn more money. This is often the case for qualified tradespeople like electricians, plumbers, and hairdressers, and professionals like accountants and lawyers.
Control	Some employees feel like they have no control over their work or their future in a large organisation. They may set up a business to have more control in their work.
Work-life balance	Some people want a better balance between work and their private life. They may want to set their own hours, or the freedom to choose projects they like. New technologies can make it easier to work from home and find this balance. However, it is important to understand that most entrepreneurs have to spend a lot of time with their business to make it a success.

International Mindedness

The main reasons for starting businesses will vary depending on the culture and economic conditions in a country. There are often many entrepreneurs in very low-income countries. This is more about necessity than choice. In some places, there are few job opportunities offered by businesses. So, to survive, people need to create businesses themselves.

You can read more about reluctant entrepreneurs in this excerpt (https://www.business-standard.com/article/beyond-business/reluctant-entrepreneurs-111061100035_1.html) from the book *Poor Economics* by Nobel Prize winners Abhijit V. Banerjee and Esther Duflo.



Figure 3. Seeking a better work-life balance is one reason that some people start a business.

Credit: Compassionate Eye Foundation, Getty Images

Activity

Learner profile: Thinkers

Approaches to learning: Thinking skills (critical thinking)

Social scientists sometimes use the idea of push and pull factors to explain the reasons for people's decisions. You see this often in Geography courses.

- A push factor is a negative condition that makes people want to leave a particular situation.
- A pull factor is a positive condition that makes people want to enter a particular situation.

Examine the reasons given above for starting a new business. Which ones would you classify as push factors and which would you classify as pull factors? Which are both?

You may find it helpful to draw a quick table like the one below to record your thoughts:

Factor	Push? X	Pull? X	Both? X	Explanation
New business idea				
Passion to make change				
Market need				
Earning a living				
Greater financial reward				
Control				
Work-life balance				

Challenges of starting a new business



Figure 4. Lack of adequate funds is a common reason for businesses to fail.

Credit: federico cardaio, Getty Images

Starting a new business is no easy task and new businesses face a range of challenges, as described in **Table 2**.

Table 2. Challenges faced by new businesses.

Reason	Explanation
Lack of funds	Perhaps the most common problem newly established businesses face is a lack of funds. While many entrepreneurs can predict the funds needed to start a business, they may underestimate the amounts necessary to sustain operations. This is especially true where the external environment is unstable.

Reason	Explanation
Strong competition	New businesses may find it difficult to break into existing markets with strong competitors. Consumers may be loyal to established brands. Existing competitors may have lower costs of production and can charge lower prices than newcomers. A new business often has to offer something unique to attract customers.
Market too small / no market	Some entrepreneurs are focused too much on their product, and do not pay enough attention to whether there is a market for it. <u>Product-orientation</u> can work, especially if the business makes a product to fill a truly unrecognised need. However, most of the time entrepreneurs need to ensure that the market already exists for what they develop. This is called <u>market-orientation</u> .
Unskilled employees or lack of collaboration	Recruiting qualified employees can be difficult, especially where there are labour shortages. Some potential employees do not like risk. In addition, it may not be totally clear what skills are needed in the new business, so the wrong people for the job may be hired. New businesses often have small teams; if they do not work well together, the business is likely to fail.
Poor management skills	Management skills can be a problem for new entrepreneurs who are often experts in their line of business, but less skilled at managing people and processes. They may make expensive mistakes before they realise that they need help.

Reason	Explanation
Economic, environmental or political shocks	Rapid changes in the economy, natural environment or politics can impact a business. You will learn more about these factors in Section 1.1.6 (/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-swotsteeple-analysis-id-36834) about the SWOT/STEEPLE analysis. Businesses have little control over these factors but they need to react quickly and flexibly to them. New and small businesses may not be as resilient to changing conditions.

Activity

Learner profile: Thinkers
Approaches to learning: Thinking skills (transfer)

Which of the following challenges listed in the text above are:

- about the **internal** weaknesses of a business, related to the four main business functions or processes (human resources, finance, marketing, operations)?
- about the threats to a business from the **external** environment?

Draw the table below to help you record your ideas.

	Internal?	External?	Both?	
Challenge	X	X	X	Explanation
Lack of funds				
Strong competition				
No market or market too small for the product				

	Internal?	External?	Both?	
Challenge	X	X	X	Explanation
Unskilled employees or lack of collaboration				
Lack of management skills				
Economic, environmental or political shocks				

Steps to start a new business

Entrepreneurs will all follow a similar process in order to get their business up and running, as described in **Table 3**.

Table 3. Steps to start a new business.

Steps	Explanation
Refine the idea	Entrepreneurs need to spend considerable time getting feedback on their ideas. This helps ensure that their idea is the best it can be, before spending time and money to set up the business. In some cases, new technology will need to be tried out. In other cases, more research needs to be done to ensure there is a market.

Steps	Explanation
Prepare a business plan	A business plan is a roadmap and story that lays out how the business will get started and operate. You will study the parts of a business plan in <u>Section 1.1.7</u> (/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-business-plan-id-36835).
Decide on a legal structure	The entrepreneur must choose a legal structure for the business. Will the entrepreneur be the only owner? Will there be a partnership? Should they set up the business as a corporation? The legal structure is related to who owns the business and what kind of value the business is bringing to society. You will study the different forms of organisational structure in <u>Subtopic 1.2</u> (/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-big-picture-id-36838).
Register the business	In almost all countries, businesses must be registered with the government. This involves registration paperwork and getting permissions if necessary. The business may also need to file paperwork relating to how the business will be run. This will vary from country to country.

Steps	Explanation
Find a location	Some entrepreneurs may be able to operate from home. Other entrepreneurs may use low-cost space in a hub for new businesses. These are sometimes sponsored by governments to support development of new businesses. These hubs may be places where entrepreneurs can meet up and share experiences and advice. Other entrepreneurs, like someone starting a restaurant, will need to find permanent and specialised space to set up operations.
Hire employees	Some entrepreneurs work alone, at least in the beginning. Others will need to hire staff to get started.
Get funding	Many entrepreneurs use personal savings to get their business started. But most entrepreneurs will need additional money, called financing. You will learn more about financing in Subtopic 3.2 .

Activity

Learner profile: Thinkers

Approaches to learning: Thinking skills (critical thinking)

The steps to start a business that are listed in **Table 3** and illustrated in **Figure 5** are not necessarily the order that a particular business will follow.

- Can you think of a situation where the order of steps to start a business would be different?

Discuss this with a partner.

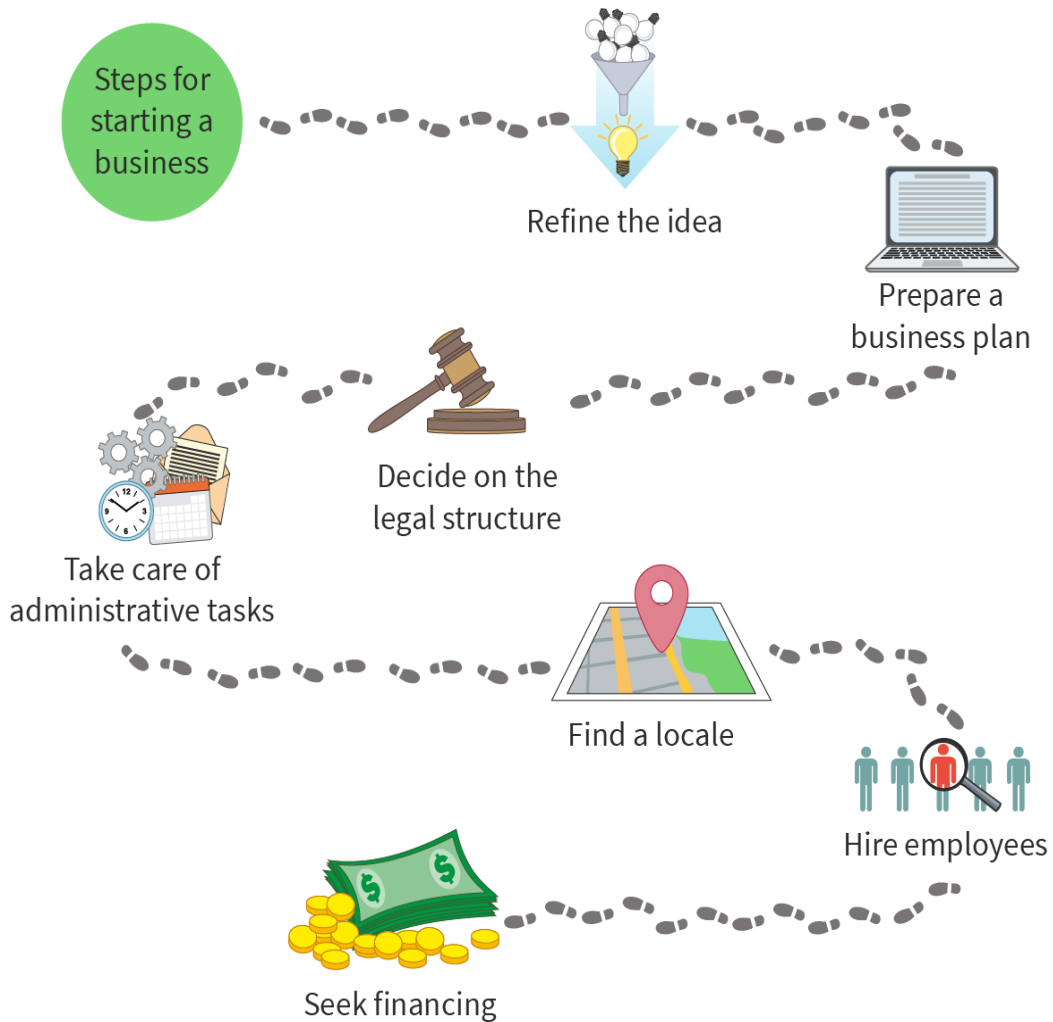


Figure 5. Steps to start a business.