
CBSE Class 12 Business Studies
NCERT Solutions
Chapter 13
Entrepreneurship Development

Multiple Choice Type:

1. Entrepreneurs undertake

- (a) Calculated risk**
- (b) High risk**
- (c) Low risk**
- (d) Moderate and calculated risk**

Ans: (b) It is generally believed that entrepreneur take high Risk. Yes, individuals opting for a career in entrepreneurship take a bigger risk that involved in a career in employment or practice of a profession as there is no assured payoff.

2. In economics, which of the following is not a function of the entrepreneur?

- (a) Risk-taking**
- (b) Provision of capital and organization of production**
- (c) Innovation**
- (d) Day to Day conduct of business**

Ans: (d) Day to Day conduct of business is not the function of enterprenure.

3. Which of the following statements does not clearly distinguish between entrepreneurship and management?

- (a) Entrepreneurs found the business; managers operate it**
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(b) Entrepreneurs are the owners of their business; managers are employees

(c) Entrepreneurs earn profits; managers earn salaries

(d) Entrepreneurship is once for all activity; management is a continuous activity

Ans: (d) The sentence that does not clearly distinguish between entrepreneurship and management is 'Entrepreneurship is once for all activity; management is a continuous activity'. It is often said that once the business starts up, the role of entrepreneur ends and the manager comes in to run and stabilise it. However, entrepreneurs, even after the business is established, remain attached to the day-to-day activities. They also take up managerial role as and when required. In other words, as the managers are expected to play entrepreneurial role when needed, the entrepreneurs are also expected to handle the managerial function when needed.

4. In the roles and functions of the entrepreneur identified by Kilby, which of the following is not an aspect of 'political administration'?

(a) Dealing with public bureaucracy

(b) Managing human relations within the firm

(c) Introducing new production techniques and products

(d) Managing customer and supplier relations

Ans: (c) Peter Kilby identified certain roles and functions of an entrepreneur in relation to the enterprise. Under the aspect of political administration, he identified three functions- dealing with public bureaucracy, managing human relations within the firm and managing customer and supplier relations. The function of 'Introducing new production techniques and products' was given in the aspect of technology.

5. Which of the following attitudes is not generally associated with successful entrepreneurship

(a) Investing in R and D

(b) Live your business day by day

(c) Innovate and improvise continually

(d) Produce as per customers' requirements

Ans: (a) For a successful entrepreneurship, the three attitudes as mentioned in the question that is, living the business day by day, innovating and improvising continuously and producing as per customer's requirement are essential. Although, investing in R and D also forms an important aspect, however, it comes only after the other three have been achieved and the enterprise has reached a certain appreciable level. For the short-term success, it is not essential for the entrepreneur to invest in R and D. This is because the investment in Rand D requires a huge investment outlay and thereby, can impede the operations of the business.

Short Answer Type:

1. Clarify the meaning of the terms 'entrepreneur', 'entrepreneurship' and 'enterprise'.

Ans: The three terms 'entrepreneur', 'entrepreneurship' and 'enterprise' are different yet interrelated to each other. An entrepreneur refers to a person/individual who starts up a business. He is the one who takes up the basic idea of setting up the business. In the process of setting up the business, he undertakes risk, coordinates production resources and undertakes innovation. This whole process of setting up a new business is called entrepreneurship. The final result, that is, the business which is established after undertaking the process of entrepreneurship is called an enterprise. Thus, 'entrepreneur is the person' who undertakes the 'process of entrepreneurship' to set up an 'enterprise'.

2. Why is entrepreneurship regarded as a creative activity?

Ans: Entrepreneurship is a process of setting up ones own business by an individual. Entrepreneurship is regarded as a highly creative activity as it is said that entrepreneurship adds or creates 'value'. An entrepreneur creates a link between the raw materials and the products produced as per the needs of the society. Such process adds to the income and wealth. Even if new creation destroys the existing industries, for instance, new laptops are

replacing the old desktop computers, it is termed as creative destruction. Entrepreneurship is also regarded as creative in the sense that it involves introduction of new products and technology. Even if new products or technology are not discovered rather adopted from existing ones, they are no less than innovation. This is because to use old techniques in a new way requires creativity. For instance, the creator of laptops used the old technique of table computers in a new way and thereby created laptops. Thus, creativity can be called as essence of entrepreneurship.

3. "Entrepreneurs undertake moderate risks". Elaborate this statement.

Ans: In the writings of Richard Cantillon, an entrepreneur is described as an agent who purchases means of production at certain prices, converts them into final products to sell them at uncertain prices in future. Herein, the key element which needs to be taken into consideration is 'uncertainty regarding future'. When an entrepreneur starts up a new business he is never sure of its success. It may happen that the business may flourish in the successful direction or it might also happen that it ruins everything that the entrepreneur has. Although the possibility of absolute ruin is very rare, but the risk is always there. Moreover, when an individual opts for entrepreneurship as a career he gives up career in employment. That is, he gives up a well promised job or profession that provides assured returns. However, in reality what he is taking up is called moderate and calculated risk. When an entrepreneur decides to take up a new business venture, then first of all he weighs the favours against the odds on the basis of his skills, abilities and confidence. On this basis, they generally avoid the situations that are highly risky. Thus, they do undertake risks but such risks are moderate and calculated ones. They take up those ventures where the odds and favours are in equal probability and where they have the confidence of converting a only a 50% probability of success into 100% success. Thus, it can be said that they undertake moderate and calculated risk.

4. How does entrepreneurship result in increasing the spectrum and scope of economic activities?

Ans: Entrepreneurship largely promotes the economic development of a country. Entrepreneurship helps in the diversification of economic activities. This diversification is felt across geographical, sectoral and technological scope. They break the vicious circles (of

low level) on the demand side and the supply side. For instance, if the demand on the domestic front is low, production and employment remains low, which further results in low income and thereby, low demand. Entrepreneurs can break this cycle by directing production towards exports. Similarly, if the supply is constrained by, say, absence of resources, the entrepreneurs can increase the production capacity and if required import the required resources and raw materials or technology.

In addition, entrepreneurs can also bring about positive sectoral changes in the economy. Entrepreneurs diversify their activities from the stagnant sectors to the new and upcoming sectors. This diversification of activities brings about a transformation in the economy and move it towards the path of development.

5. Describe briefly the role of achievement motivation in entrepreneurship.

Ans: It was traditionally said that an entrepreneur is born but, in reality, an entrepreneur is not just born but is aspired to become one. Men and women who carry a sense of self-efficacy, are the ones who are capable of being a potential source of entrepreneurship. Herein, achievement motivation plays an important role in aspiring them to become an entrepreneur. What drives an individual towards entrepreneurship is the inclination towards achieving something different. Achievement and excelling over competitive situations proves as a motivating factor to take up entrepreneurship. Moreover, the desire is to accomplish difficult and different situations as independently as possible. The platform to fulfil these desires is provided by entrepreneurship. Entrepreneurship drives an individual to excel one's self and overcome the obstacles through successful exercise of talent. That is, entrepreneurship creates a platform for exercising creativity and self-development. Hence, achievement motivation plays an important role in entrepreneurship.

Long Answer Type:

1. Describe briefly the steps involved in starting a new business.

Ans: The following are the steps involved in setting up a new business.

. Discover a Business Opportunity The Promoter first finds out a business opportunity. He can discover this information from newspapers, magazines, market surveys, research, etc.

He may find out an opportunity to:

1. Start a new business, company or enterprise,
2. Expand or diversify the existing (old) business,
3. Purchase another company,
4. Enter a joint venture or foreign collaboration, etc.

All business opportunities look excellent in the beginning. However, the promoter must investigate the possibility very carefully. He must find out whether a step forward would be profitable or not. He must study the competition, future prospects of the business, demand-supply position, availability of raw materials, etc. He must initiate in this direction only if he is completely satisfied.

2. Decide the Size of Business

The promoter has to decide whether the business unit will be a small, medium or large sized. The size of the company depends on many factors such as the economics of scale, future demand, finance, etc. He must see that there is an optimum utilization of resources and maximum profit.

3. Decide Form of Business Ownership

The promoter must decide about the type or form of business ownership whether a sole trader, partnership firm, a private company, public company, cooperative society, etc. The decision on selecting form depends on many factors such as the size of business, finance, tax, extent of liability, etc.

4. Select Location of Business

While choosing the location of the company the promoter must consider crucial factors like availability of land, electricity, water, nearness to market, transportation, the scope for expansion, and so on. Unscientific location affects the efficiency of business. It increases the cost of production and decreases the profitability. Therefore, immense care must be taken while selecting the region, location and site for the business unit.

5. Fix Capital Needs of Business

Finance is the lifeline of a business. As a result, the promoter has to decide about

business capital requirements and also find out different sources of funding.

While starting a new company the promoter has to decide on:

1. The financial needs of the enterprise. That is, the short-term and long-term capital requirements.
2. Sources of finance like shares, debentures, loans from banks and -other financial institutions.
3. The cost of collecting fund and the returns on capital invested.
4. The capital structure and appropriate time for obtaining finance.
5. Sources of working capital, etc.

6. Organize Physical Facilities

Physical facilities mean the resources used to convert raw materials into finished products.

The promoter has to decide about the machines and equipment to be used. The process of production and the skilled and unskilled workers required for performing jobs. He must get the best-quality raw materials, quality machines and skilled workers. Only then that he can produce the best quality goods.

7. Plan a Good Layout

An arrangement of physical facilities like machines, equipment and workers required for manufacturing goods means Layout.

Plant layout is a scientific and systematic arrangement of machines and equipment within the factory.

A good layout plan ensures minimum wastage, better use of available space, minimize production loss, safety and security of workers. It also increases the profits of the business.

Therefore, the promoter must have a good plant layout.

9. Manpower Requirements

Business enterprise requires skilled and semi-skilled workers to do factory and clerical jobs. The success of any organization depends upon selecting a right individual for the right job.

The promoter must use scientific methods for selection and training manpower (personnel) and match the right person with an appropriate job.

Tax Planning

The promoter must not avoid the tax liability of the business. Better management can legally minimize the tax obligation.

Tax planning does not mean non-payment of tax. It means to reduce the taxes and the effect of the taxes on the business.

Therefore, tax planning also influences the promoter's decision about choosing the location, size, form and profitability of the enterprise.

2. Examine the nature of relationship between entrepreneurship and economic development.

Ans: The relationship between entrepreneurship and economic development can be highlighted with the help of the following functions performed by entrepreneurs.

(i) Contribution to GDP: Economic development of any economy is often related to increase in GDP. As entrepreneurs take up production activities, he directly contributes towards the generation of income. In addition to the process, he appoints various factors of production such as land, labour and capital. In return of the services provided, the factors of production receive income. Land gets rent, labour gets wages and capital receives interest and all these values add to the GDP.

(ii) Capital Formation: The GDP of an economy is directly related to the rate of capital formation. Higher the desired rate of growth of GDP, higher is the required rate of capital formation. Entrepreneurs invest their own savings as well as mobilise the savings of others. Thereby, they contribute in the process of capital formation.

(iii) Generating Employment: Many people are not able to earn a living due to lack of opportunities. A new business provides employment opportunity to such people and acts as a source to earn livelihood. An entrepreneur by setting up a business provides employment directly as well as indirectly. For instance, it provides employment to labourers building up a

factory, to people who will be working in the production process, etc.

(iv) Generation of Business Linkages: An entrepreneur helps in creating a chain of business linkages. An enterprise provides opportunities to both the suppliers of the inputs as well as the marketers who will be selling the output. For instance, if an entrepreneur decides to manufacture tables and chairs, he creates business opportunities for the people who provide the input resources such as wood, steel, etc. Similarly, he will provide work for workers, transporters as well as for the retailers who will sell them further.

(v) Increased Efficiency: An entrepreneur improves economic efficiency by avoiding wastage of resources. He focuses on optimisation of resources and aims at producing greater output from the available input. He also works on the technological upgradation and thereby, contributes to increased productivity.

(vi) Increasing the Range of Economic Activities: Entrepreneurs always look out for fresh areas to invest their savings into or to start up a new business. By doing so, they help in increasing the scale of economic development. By bringing out new opportunities and serving as a source of livelihood in new sectors rather than the stale ones, they help in diversifying the economic activities across geographical and technological and sectoral scope.

3. Clarify how motivation and abilities impact an individual's decision to choose entrepreneurship as a career.

Ans: Many people are efficacious in the sense that they have a self-perception along with the confidence of turning the odd situations into the favourable ones. Such individuals have the potential of becoming a successful entrepreneur. Such individuals have the ability required to be an entrepreneur. What they require is a set of motivating factors. There are many enablers and disablers of entrepreneurship such as socio-cultural situations, individual values, etc. which affect the decision to take up entrepreneurship as a career. Four primary drivers of entrepreneurial behaviour have been identified, namely, N-Ach, N-Pow, N-Aff and N-Aut.

Need for Achievement (N-Ach): An urge to accomplish the competitive situations and to use one's talent to achieve high standards of excellence drives an individual towards

entrepreneurship. This need for achievement refers to mastering, manipulating and organising the human resources and ideas in order to attain something difficult. Entrepreneurship creates a platform for exercising creativity and self-development. Entrepreneurship drives an individual to excel one's self and to overcome the obstacles through successful exercise of talent.

Need for Power (N-Pow): Power refers to the authority to influence and direct people. An entrepreneur is the owner of his enterprise and thereby holds the power to control its various activities. Moreover, a successful entrepreneur uses his power to fulfill not only his own personal interests but also at the same time can provide positive impetus to the society as well.

Need for Affiliation (N-Aff): Every person has a need for affiliation. That is, he desires to conform to the wishes and aspirations of the people whom he/she values. Although entrepreneurs are believed to be low on affiliation but, this is not true. One may not work for self-fulfillment but for his/her family's gratification. For instance, one may wish to carry on with his family business and works to take it to a greater height. This is perceived as the need for affiliation. Thus, entrepreneurship fills in the need for affiliation and motivates a person to satisfy his social needs via choosing entrepreneurship as a career.

Need for Autonomy (N-Aut): Need for autonomy refers to the need for freedom and independence. Unlike other professional practices, entrepreneurship provides the freedom of being responsible to one's own self. In other words, entrepreneurship provides the opportunity of being responsible and accountable to one's own self rather than working under some external authority. Such a freedom motivates the people to take up entrepreneurship as a career.
