

CHAPTER

2

THE ENTREPRENEUR: DEFINITION AND CONCEPT

"A good entrepreneur is one who is capable of inspiring confidence in people, and has the ability to motivate them to work with him in fulfilling the economic goals set by him."

Leadership is Laddership

Management is efficiency in climbing the ladder of success; leadership determines whether the ladder is leaning against the right wall.

— Stephen Covey, Management Guru



INTRODUCTION

The entrepreneur is an important input of economic development. He is a catalyst of development; with him we prosper, without him we are poor. In this chapter, we discuss the definitions and structure of entrepreneur.

The entrepreneur of the world are the wisest minds who leave an indelible mark in the history of mankind. They make it possible through their action, and not through words. They do things in a completely new way. They think beyond the obvious. They go deeper. They think from different perspectives and angles.

You give them any job, they do it with perfection. Nothing is impossible for them. They respond positively to the situation and tell, "Certainly I can do this." Then they get busy and find out how to do it.

The entrepreneur of the world do have a larger quest quotient than the intelligence quotient. They have always something to learn. They keep learning because they enjoy challenges. They believe, "who so neglects learning in his youth, loses the past and is dead for the future." They know, "Learning is not compulsory ... neither the survival." Agreeably, the whole world is a laboratory to the inquiring mind of entrepreneurs of the world.

Definition of an Entrepreneur

The term "entrepreneur" is defined in a variety of ways. Yet no consensus has been arrived at on the precise skills and abilities that make a person a successful entrepreneur.

The concept of entrepreneur varies from country to country as well as from period to period and the level of economic development thoughts and perceptions. A review of research done in different disciplines over the years would improve our understanding of the concept of entrepreneur.

The word *entrepreneur* is derived from the French word '*Entreprendre*' which means to 'undertake', i.e., the person who undertakes the risk of new enterprise. The word entrepreneur, therefore, first appeared in the French language in the beginning of the sixteenth century. The word was also applied to the leaders of military expedition. But it was **Richard**

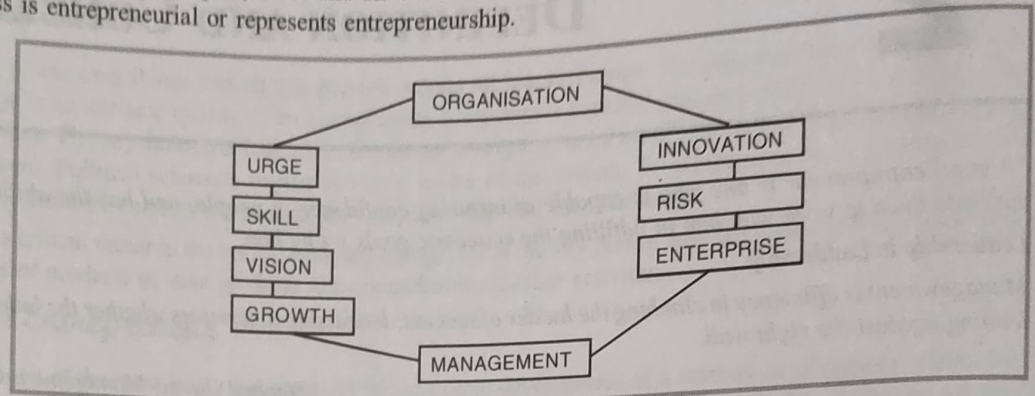
Cantillon an Irishman, living in France who first used the term *entrepreneur* to refer to economic activities. According to Cantillon: "An entrepreneur is a person who buys factor services at certain prices with a view to selling its product at uncertain prices." Thus, to Cantillon, an entrepreneur is a bearer of risk which is non-insurable. Around 1700 A.D., the term was used for architects and contractors of public works.

Bernard Belidor applied it to the function of buying labour and material and uncertain prices and selling the resultant product at contracted price.

Quesnay regarded the rich farmer as an entrepreneur who manages and makes his business profitable by his intelligence, skill and wealth.

In many countries, the entrepreneur is often associated with a person who starts his own new and small business. Business encompasses manufacturing, transport, trade and all other self-employed vocations in the service sector. But not every new small business is entrepreneurial or represents entrepreneurship.

Fig. 2.1
Basics of an
Entrepreneur



The term "entrepreneur" was applied to business initially by the French economist, Cantillon, in the 18th century, to designate a dealer who purchases the means of production for combining them into marketable products. Another Frenchman, J.B. Say, expanded Cantillon's ideas and conceptualised the entrepreneur as an organiser of a business firm, central to its distributive and production functions. Beyond stressing the entrepreneur's importance to the business, Say did little with his entrepreneurial analysis.

According to Jean Baptiste Say, an entrepreneur is the economic agent who unites all means of production, the labour force of the one and the capital or land of the others and who finds in the value of the products his results from their employment, the reconstitution of the entire capital that he utilises and the value of the wages, the interest and the rent which he pays as well as profit belonging to himself. He emphasised the functions of co-ordination, organisation and supervision. Further, it can be said that the entrepreneur is an organiser and speculator of a business enterprise. The entrepreneur lifts economic resources out of an area of lower into an area of higher productivity and greater yield.

The New Encyclopaedia Britannica considers an entrepreneur as "an individual who bears the risk of operating a business in the face of uncertainty about the future conditions." Leading economists of all schools, including Karl Marx, have emphasised the contribution of the entrepreneurs to the development of economies, but Joseph Schumpeter who argues that the rate of growth in an economy depends to a great extent on the activities of entrepreneurs, has probably put greater emphasis on the entrepreneurial function than any other economist.

As Professor Jan Tinbergen points out: "The best entrepreneur in any developing country is not necessarily the man who uses much capital, but rather the man who knows how to organise the employment and training of his employees. Whoever concentrates on this is rendering a much more important service to his country than the man who uses huge capital."

Adam Smith, the father of classical economics, did not use the term *entrepreneur* anywhere. Instead, he used the words like *employer*, the *merchant*, the *undertaker* and the *master*.

Alfred Marshall wrote about the capitalists and management but he was silent about their difference. As such, the classical economists ignored the term *entrepreneur* entirely.

According to **A.P. Usher**: "Specialisation or division of labour necessitates an entrepreneurial function the crux of which is to coordinate different economic activities. This view on entrepreneurship was very narrow and it reduced the entrepreneurship activities to no more than a managerial function."

F.H. Knight, in his article on *Risk, Uncertainty and Profit* propounded the maxim that "entrepreneur are a specialised group of persons who bear risks and deal with uncertainty." He also identified social, psychological and economic factors which govern the supply of entrepreneurship.

According to **David Ricardo**, a contemporary of **J.B. Say**: "The foremost motive of a risk taker is to amass capital and capital accumulation is the sine qua non of economic development."

J.S. Mill viewed the word *entrepreneur* as organiser who was paid for his non-manual type of work. According to him: "Extraordinary skills acted as the bedrock in production process that ought to be possessed by the entrepreneur."

Leon Walrus, in his papers, *The Theory of Social Wealth* (Allen and Unwin, London, 1954) pointed out that entrepreneur is the coordinator of basic factors of production. He treated '*entrepreneur*' as the fourth factor of production who combines other factors such as land, labour and capital.

In 1882, **F.B. Hawley** contemplated *risk taking* as the prime characteristic feature of the entrepreneur which was comparable to the elementary agents of production like land, labour and capital. All classical and neoclassical economists believed in the significance of entrepreneurial action but did not incorporate the term '*entrepreneur*' into their theories and thus entrepreneurship remained as a clandestine factor.

With **J.A. Schumpeter**, the term *entrepreneur* had received a wide acclaim. He defined the entrepreneur as an *innovator* who carries out new combination to initiate the process of economic development through introduction of new products, new markets, conquests of new source of raw materials and establishment of a new organisation of industry. He said, "The carrying out of a new combinations we call *enterprise*, the individuals whose function is to carry them out we call *entrepreneurs*." He has put emphasis on *profit*, which is the product of innovation and the prime mover of economic development. According to **Schumpeter**, "The process of development is a deliberate and continuous phenomenon which is actively promoted by the escort services of a change agent who provides economic leadership. This change agent is what is called *entrepreneur*."

Cole described entrepreneur as an individual who undertakes 'to initiate, maintain or aggrandise a profit-oriented business unit for production or distribution of economic goods and services.

Schumpeter's Definition of Entrepreneur

Joseph A. Schumpeter thus writes: "The entrepreneur in an advanced economy is an individual who introduces something new in the economy — a method of production not yet tested by experience in the branch of manufacturer concerned, a product with which consumers are not yet familiar, a new source of raw material or of new markets and the like." He further states the entrepreneur's function is to "reform or revolutionise the pattern of production by exploiting an invention or more generally, an untried technological possibility for producing a new commodity...."

Briefly, an entrepreneur is one who innovates, raises money, assembles inputs, chooses managers and sets the organisation going with his ability to identify them. Innovation occurs through (1) the introduction of a new quality in a product, (2) a new product, (3) a discovery of a fresh demand and a fresh source of supply and (4) by changes in the organisation and management.

In the case of a developing economy like India, the concept is being understood differently. An entrepreneur in a developing economy is one who starts an industry (old or new), undertakes risk, bears uncertainties and also performs the managerial functions of decision-making and co-ordination. He also puts the new process based on technological research into operation. Even if he imitates any technique of production from a developed economy, he is called an entrepreneur. In point of fact, entrepreneurship in developing economies is one form of labour that tells the rest of labour what to do and sees to it that it gets things done. Unlike in the developed industrial world, emphasis is not put (nor is there any need for it) only on "Schumpeterian innovations" in the case of developing countries.

Schumpeter's entrepreneur only exists if the factors of production are combined for the first time. To him, maintenance of a combination is not entrepreneurial activity. As such, he differs from the theory of Rent enunciated by Ricardo. Ricardo included the term "entrepreneurial ability" as an independent factor of production. To Ricardo, profit is the reward for entrepreneurial ability.

Drucker's Views on Entrepreneur

Peter Drucker has aptly observed that, "Innovation is the specific tool of entrepreneurs, the means by which they exploit changes as an opportunity for a different business or a different service. It is capable of being presented as a discipline,

capable of being learned and practised. Entrepreneurs need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation. And they need to know and to apply the principles of successful innovation."

Systematic innovation, according to him, consists in the purposeful and organised search for changes and in the systematic analysis of the opportunities such changes might offer scope for economic and social innovation.

According to Drucker, three conditions have to be fulfilled.

1. Innovation at work. It requires knowledge and ingenuity. It makes great demands on diligence, persistence and commitment.
2. To succeed, innovation must build on their strengths.
3. Innovation always has to be close to the market focused on the market, indeed market-driven.

Specially, systematic innovation means monitoring six sources for innovative opportunity.

The first three sources lie within the enterprise, whether it be a business or a public service institution or within an industry or service sector. They are, therefore, visible primarily to people within that industry or service sector. They are basically symptoms. But they are highly reliable indicators of changes that have already occurred or can be made to occur with little effort. These four source areas are:

1. The unexpected — the unexpected success, the unexpected failure, the unexpected outside event.
2. The incongruity — between reality as it actually is and reality as it is assumed to be or as it "ought to be."
3. Innovation in industry structure or market structure that catches everyone unawares.
4. The second set of sources for innovative opportunity, a set of three, involves changes outside the enterprise or industry:
 - Demographics (population changes).
 - Changes in perception, mood and meaning.
 - New knowledge, both scientific and non-scientific.

Walker's Views on Entrepreneur

According to Francis A. Walker, the true entrepreneur is one who is endowed with more than average capacities in the task of organising and coordinating the various other factors of production. He should be a pioneer, a captain of industry. The supply of such entrepreneurship is, however, quite limited and enterprise in general consists of several grades of organisational skill and capability. The more efficient entrepreneurs receive a surplus reward over and above the managerial wages and this sum constitutes true profit ascribable to superior talent.

New Concept of Entrepreneur

The term "entrepreneur" has been defined as one who detects and evaluates a new situation in his environment and directs the making of such adjustments in the economic systems as he deems necessary. He conceives of an industrial enterprise for the purpose, displays considerable initiative, grit and determination in bringing his project to fruition, and in this process, performs one or more of the following:

- (i) perceives opportunities for profitable investments;
- (ii) explores the prospects of starting such a manufacturing enterprise;
- (iii) obtains necessary industrial licences;
- (iv) arranges initial capital;
- (v) provides personal guarantees to the financial institutions;
- (vi) promises to meet the shortfalls in the capital; and
- (vii) supplies technical know-how.