# THEORIES OF ENTREPRENEURSHIP

# The Theories of Entrepreneurship

#### 1. Richard Cantilon

- An entrepreneur is a person with foresight and competence to operate in conditions on

#### uncertainty.

- Richard was particular about an entrepreneur being a person who performed in uncertain environments because the market demand is not perfectly predictable not necessarily that his products are untested an untried.
- Cantilon contributed to the contention that an entrepreneur is somebody who has foresight and confidence to operate under conditions of uncertainty.
- He associated risks and uncertainties with administrative decisions of entrepreneurs.
- He identified the fact that profit to the entrepreneur arises out of decision making and

risk taking.-

#### b) John Baptise

- ► Entrepreneurs coordinate and combine the factors of production
- In the factors of production.
- He places emphasis on the variety of markers and inputs which the entrepreneur has to deal with "successfully" in effect, the

entrepreneur is expected to "perceive and realize potential arbitrage" in addition to taking risks associated with uncertainty

- According to say, the entrepreneur must surmount abundant obstacles, suppress anxieties, repair misfortunes and devise expedients.
- As a result, the entrepreneur accommodates the unexpected and overcome problems successfully in dealing both the input and consumer market.
- A possible conclusion form this contention is that the entrepreneur is a locator of resources in the adjustment process during equilibrium, towards equilibrium.

#### c) Carl Menger, (1950) and the Austrian School

 Carl Menger and what is known as the Autrian school in economics emphasizes the

locative role in directing that entrepreneurs role is that of risk taker in an uncertain

environment.

- They added that the entrepreneur needs information and has to have the ability to analyze and use this information to make the correct decision in allocating resources.
- ▶ Other followers of the Austrian school of Thought went on to add that the alertness, superior perception and leadership of the entrepreneur cause factors of production to be allocated and continuously allocated.

- d) Joseph Schumpeter (Innovation)
- ► He in the early 20th century provided perhaps one of the most comprehensive analyses of entrepreneurship within the context of economic development.
- He introduced the notion that the entrepreneur is not just an allocate or director of resources, but combines inputs in untried combinations (innovator).
- Schumpeter asserted that the entrepreneur only remained an entrepreneur for as long as he is innovative, and losses that characteristics as soon as he falls into the routine management of the business.
- Schumpeter described this process as discrete rather than constituting a gradualist
- change or evolution.

#### e) MC Cleland (a function of High Achievement)

- According to MC Cleland, the characteristics of entrepreneur have two features -
- First doing things in a new better way and
- ii. second making under uncertainty.
- He emphasizes achievement orientation as most important factor for entrepreneurs.
- Individuals with high achievements orientation are not influenced by considerations of money or any other external incentives.
- ► He argues that profit and incentives are merely yardsticks of measurement of success of entrepreneurs with high achievement orientation.
- The achievement orientation can be taught and increased by deliberate efforts.
- ▶ He finally observed that the individual with high achievement orientation take
- ► calculated risks and can make decisions where there are incomplete information or have tolerance for ambiguity Psychologists call this behavior a type -A-
- behaviour.

# **BUSINESS INCUBATION**

### **Business Incubation**

Business incubation is the process of nurturing small and start - up initiatives or business to relative maturity to become self-sustaining business, healthy and wealth-generating entities.

The failure rate of any start-up business stands at 90% globally.

The main causes of business:

- i) Insufficient capital for start-up.
- ii) Insufficient knowledge of business and industry.
- iii) Lack of Entrepreneurial and business skills.
- iv) Lack of Managerial skills.

- v) Inadequate Training.
- vi) Lack of credit facilities.
- vii) Lack of markets.
- viii) Insufficient knowledge of markets.
- ix) Inadequate infrastructure.
- x) Non-Empowering political environment.

- For these reasons, many businesses which are ill-equipped do not survive.
- A business incubator is important for precisely those reasons above to provide these support services.
- Statistics show that the success rate for incubated businesses initiatives is very high (over 80%) are bound to succeed.

- Business incubators differ from research and technology in their dedication to start-up and early stage businesses.
- Research and Technology institutes tend to be large scale projects that house everything from corporate government or university labs to very small companies.
- ► The research institutions do not offer business assistance services which are the main objective of business incubation.
- Unlike many business assistance programs business incubators do not serve any and all companies.

- Entrepreneurs who may wish to enter a business incubation program must apply for admission.
- Acceptance criteria vary from program to program but in general only those with feasible business ideas and workable business plan are admitted.
- The time a company spends in an incubation program vary widely depending on a number of factors, including the type of business and the Entrepreneur's level of business Expertise.

#### The Benefits of Incubation.

- Creating jobs and wealth
- Fosters a community's Entrepreneurial climate
- Technology commercialization.
- Diversification of Local Resource.
- Acceleration of local development.
- Facilitation of Business creation and growth.
- Encouraging entrepreneurship especially women.
- Revitalization of the community as a whole.
- Growth of Private Sector Investment.
- Increased Tax Revenue.
- Equitable Development.

#### Government Roles in Promoting Incubation

- (i) Creation of an enabling environment through;
  - a. Purchasing consumer products.
  - b. Support programs financially of the incubation process.
- (ii) Government policy to buy from incubators.
- (iii) Give small scale businesses loans and grants.
- (iv) Launch campaign to sensitize the private sector to work with business incubation initiative.
- (v) Take a lead role in the incubation process.
- (vi) Assist in the coordination, encouraging and streamlining the efforts of incubation at National level.
- (vii) Lobby and Rally with Kenyans in Diaspora together with developing partners to support business Incubation.

(viii) To encourage coordination of independent efforts country-wide for better synergy and a more effective Natural impact

- (ix) To rally universities and other research institutions behind the concept to facilitate research and development in order to enrich business incubation
- (x) To provide support to business incubation initiative by providing morale support through Media Initiatives.

#### Protections of Business ideas & maintaining Secrecy

- Most entrepreneurs will not be inventors, at least not in the classic sense but all entrepreneurs are concerned with protecting their business ideas, especially when those ideas are related to;
  - i. Un usual production
  - ii. Unique designs etc.
- And for this to be done understand the "patent law" becomes but simply paramount

- When entrepreneurs want to protect unusual brand name, products business ideas or simply establishing ownership, then understanding trade marks and copyrights if vital as a way of protecting a business idea.
- ► The government law pertaining to;
  - i. Patents
  - ii. Trademarks
  - iii. Copyrights are not complicated
- Many entrepreneurs file their own patent claims or prepare documentation for trademark or copyright protection without professional help from the Attorney or patent agents.
- However it is always wise to have professional assistance though the laws are simple.

#### **Ways of Protecting Business ideas**

#### a) A patent

- A patent is a grant of property right by the government to an inventor.
- It is issued thought the commissioner of patent rights, and the most common type of patent is called a utility patent.
- All patent however, have the distinction of being assets with a commercial value because they provide exclusive rights of ownership the patent holders.

- Patents are exclusive property rights that can be sold, transferred, or used as collateral much alike other valueable assets.
- ▶ The patent law stipulates broad categories of what can and cannot be patented and in the words of the statute any person who "invents or discovers any new nd usefand useful process, machine manufacture, or composition of matter, or ay new aul imprements thereof may obtain a patent"
- Anything that is patentable must be new and useful ( must have some demonstrated function).

#### The Nature of Patentable Inventions

- ► The terms used give classification of patentable
- 1. Process The word process as used in patents refers to new methods of manufacturing or new technological procedures that can be validated as unique.
- 2. Machine In patent law means that the patent application if for a specific physical item.
- 3. Manufacture- refers to physical items that have fabricated through new combinations of materials or technical applications. The application must explain how the product is made including materials processes etc.
- 4. Composition of Matter- this category is patent law relates to the chemical compounds such as synthetic materials, medicine, cosmetics etc

#### **Types of Patents**

- Patent law provides for three categories of patents namely
- i) Utility patent
- ii) Design patent
- iii) Plant patent.

#### 1. The utility patent

- utility patent is granted for new products processes, machines, methods of manufacturing and composition of matter.
- This category excludes, most botanical creations related to plant and agricultural use.

#### 2. The design patents

- Are granted for any new or original ornamental design for an article of manufacture.
- A design patent protects the appearance of an article and not the article itself.

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#### 3. The plant patents

- In botanical terms any, new variety of plant that have been sexually reproduced can be granted a plant patent.
- The new plant must not exist in nature or in an un cultivated state. Therefore new plants hybrids and seedlings may be patented.

#### 4. Disclosures

- The patent office provides an important service of limited protection through the invention disclosure program.
- As a first step in seeking protection form the disclosure statement the aim is to register an idea with the government.
- The investor explains what the items is, that it is new and useful and how it is to be used copy is given or photograph.
- This gives the investors protection as evidence of any legal tassel, or conflicting claims giving the investor priority.

#### The Patent Procedures

- i) The disclosure
- When an idea is first reduced to sketches on paper or when it is mocked up, a
  disclosure should be filed.
- This is a measure of insurance that precedes the actual patent and provides legal recognition for all aspiring inventors.
- If someone took the sketches or steals the idea, evidence is on record.

#### ii) The patent sketch.

- A patent sketch is required to determine whether an inventor's creation already exists and remains actively protected under the law.

#### iii) The preliminary section

- The preliminary search scans the patent summaries for prior claims or invention.
- Records are accessed to make judgments and diligent decisions are made.

#### iv) Collecting search documents

- The application can the collect the approved documents for further processing.

#### Making the patent application.

- A formal application is now made at the search and is sent to the commissioner of patents and trade market.
- The application contains three parts:
  - i. A description of the item
  - ii. A set of drawings
  - iii. A formal oath or declaration
  - iv. Payment of patent filing ideas

#### 3. Trademarks

- Trademarks include any word, name, symbol or distinguishing device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others.
- Trade-marks can be names used in commerce such as KCA it can be a symbol or any distinguishing device artistic in nature.
- An important qualification for a trademark is that mark, name etc. must be used commercially.

#### 10. Service mark

- Is similar to at trademark and can be registered in the same way with the sale protection
- A service market can be a name, wording used in advertising symbols or artistic figures that create a distinctive service concept.

#### 11. Copyrights

- Are similar to patents in establishing ownership and protection for creative ideas but they pertain to the intellectual property.
- The copyright is distinct from patents and trademarks in that intellectual property is protected for the life of the originator plus a further 50 years.
- This protection affords an extraordinary property right and substantial estates. It extends protection to author, composers and artists.

#### 12. Trade Secrets

- Are proprietary information used in the course of business to gain an advantage in manufacturing or commercialization of products or services.
- Trade secrets
- i) Formulas
- ii) patterns
- iii) list of customers
- iv) data bases
- v) chemical compounds
- vi) combinations of ingredients for commercial products
- vii) process of manufacturing
- viii) Complied information.

#### Every organization must keep their secrets because

- Modern communications systems contain so much information which if not guarded, the business may collapse.
- ii. Employees leaving may disseminate information to competitors.
- iii. In any business to maintain a market Niche, then desire to protect their product.

#### 13 Trade Secrets

In certain instances the entrepreneur may prefer to maintain an idea or process as confidential, and eventually sell or license it as a trade secret.

- The trade secret will have a life as long as the idea or process remains secret.
- A trade secret in not covered by any law but is recognized under a governing body.
- Employees involved in working with an idea or process may be asked to first sign a confidential information agreement that will protect against their giving out the trade secret either while as employees or when leaving the organization this is called trade secret non -disclosure agreement.
- Most entrepreneurs have limited resources so they choose not to find means of protecting their ideas or products or services

#### Steps to be taken in order to maintain Secrecy in an Organization.

- a) Train employees to refer sensitive questions to designated personnel
- b) Provide proper security measures such as escorts to all visitors
- c) Avoid discussing business ideas in public places
- d) Keep important travel plans secret.
- e) Control information that might be presented by employees at conferences or published journals
- Use simple security measures such as locked file cabinets, passwords or computers, shedders etc.
- g) Have employees and consultants sign non-disclosure agreements.
- n) Debrief departing employees on any confidential information.
- i) Avoid faxing any sensitive information
- i) Mark documents confidential when needed.
- Unfortunately protection against the leaking to trade secrets is difficult to enforce.

#### Licensing

- Licensing may be defined as an agreement between two parties, where one party has proprietary rights over some information, process or technology protected by a patent, trademark or copyright.
- This arrangement specified in a contract requires the licence to pay royalty or some other specified sum to the holder of the proprietary rights in return for permission to copy the patent trade mark or copyright
- Licensing has significance as a marketing strategy to holders of patents, trademarks or copyrights to grow their business in a new market when they lack resources or experiences in such markets.
- It is also an important marketing strategy for entrepreneurs who wish to start a new venture but need permission to a copy or incorporate the patent trademark or copyright with the ideas

- Product Safety and Liability
- It is very important for the entrepreneur to assess whether any product that is to be marketed in the new venture is subject to any regulations under the consumer product.
- In addition to setting standards for products the commission also has a great deal of responsibility and power to identify what to consider being a substantial hazard and barring any products that may be considered unsafe.
- Any products introduced by entrepreneurs must obtain clearance from the Kenya bureau of standards under the consumers protection Act.

## **REVIEW QUESTIONS**

- Model Review Sample Examination Questions
- a) What is a public utility
- b) Discuss the merits and demerits of government participation in business.
- c) "Traders should have a free hand in dealing with consumer "discuss
- d) Explain the reasons why the government issues licenses.
- e) Explain reasons why the entrepreneur may find marketing boards useful.
- f) What are the functions of the Kenya chamber of commerce
- g) Explain the term consumer protection
- h) Explain the various methods of consumer protection.

# ORGANIZATIONAL FORMS

FROM HERE ORGANIZATIONAL FORMS - GIVEN AS READING AND QUESTIONS ASSIGNMENT.

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#### The various forms of business organizations

- 1. sole proprietorship
- 2. Partnership
- 3. Companies
- 4. public corporations
- 5. parastatal bodies
- 6. co-operative societies.

## **GROUP WORK 24.10.2023**

#### Instructions:

- i. Groups -10 members
- ii. Read about the following forms of business organizations and respond to questions that follow.
- 1. sole proprietorship
- 2. Partnership
- 3. Companies
- 4. public corporations
- 5. parastatal bodies
- 6. co-operative societies.
- 1. Explain the various forms of **EACH** of the given **SIX** business organizations.
- 2. Explain the formation **EACH** of the **SIX** forms of business organizations
- 3. Explain the procedure of the formation of **EACH** of the given **SIX** business organizations
- 4. Discuss the advantages and disadvantages of **EACH** of the given **SIX** business organizations.
- 5. Identify the types of EACH of the SIX forms of business organizations