

Entrepreneurship

1

LEARNING OBJECTIVES

Upon completion of this chapter, you should be able to:

1. Understand the role and importance of the entrepreneur in economic development.
2. Introduce the evolution and concepts of entrepreneurship.
3. Identify the various types of entrepreneurs and their functions.
4. Recognize Entrepreneurial Competencies & Importance of Corporate Entrepreneurship.
5. Explain the myths of entrepreneurship.
6. Identify the factors required for capacity building for entrepreneurs.

INTRODUCTION

Historically, entrepreneurs have altered the direction of national economies, industries, and markets. In addition to increasing national income through job creation, entrepreneurship has always served as a bridge between innovation and the marketplace. Many innovations have altered our pattern of living, and many services have been introduced to alter or create new service industries such as commercial banking, medical treatment, logistics, information systems, and insurance. Let us look at some ways in which entrepreneurs can participate in the development of an economy.

1. **Contribution to GNP and per capita income:** Entrepreneurship contributes to economic stability by introducing new products and services in the market and encouraging effective resource mobilization. This helps in increasing the gross national product as well as per capita income of the people in the country. Economic stability leads to increased institutional investment for productive activities and is a sign of economic growth.
2. **Employment generation:** The government is limited in its ability to create employment opportunities for the country's population. Entrepreneurs play an effective role in reducing the problems of unemployment in the country. Entrepreneurs are not only self-employed but also provide employment to others. Entrepreneurial activities lead to other activities, generating a multiplier effect in the economy. For example, when the information technology boom occurred in India, it led to several successful entrepreneurial ventures. This provided employment to many and also led to the launch of a number of engineering colleges, development of real-estate and hospitality ventures, and infrastructural facilities. Such developments, in their turn, encourage further entrepreneurship.

3. **Balanced regional development:** The development of enterprises in less-developed regions promotes balanced regional development in the country. In addition, entrepreneurship stimulates the distribution of wealth and income to more and more individuals (such as stakeholders) and geographical areas, thus benefiting larger sections of society.
4. **Promotion of export and trade:** Entrepreneurship promotes the country's export trade and earns foreign exchange. When required, this earning can help combat the country's import dues requirements. International trade brings economic strength and techno-economic reliance.
5. **Improvement in the standard of living:** Entrepreneurs bring a wide variety of products and services into the market. This increases competition in the market and makes it possible for people to avail of a better quality of products and services at lower and more competitive prices, resulting in an improvement of the country's overall standard of living.
6. **Increased innovation:** With the liberalization of the Indian economy, the increased competition in the domestic and international market has encouraged entrepreneurs to be more creative.
7. **Overall development of the economy:** Entrepreneurs create new technologies, products, processes, and services that become the next wave of new industries, and these in turn drive the economy. Entrepreneurs are change agents in society. They create wealth and value, and generate employment in society. This naturally leads to social and economic growth.

The Nobel Prize Committee has played its own role in the recognition of entrepreneurship.¹ The work of two economists, Dr Edmund S. Phelps from the United States and Dr Muhammad Yunus from Bangladesh (also the founder of Grameen Bank), who received the Nobel Memorial Prize in Economic Sciences (2006), makes a case for entrepreneurship. One of Phelps' main arguments is that the creativity of entrepreneurs serves to transform the work environment in firms developing an innovation as also in those dealing with the innovation.²

Unsurprisingly, every *Fortune* 500 enterprise in existence is the result of an entrepreneur's resource fullness and perseverance. According to Karl Vesper, a leading chronicler of entrepreneurship research, entrepreneurs are viewed by those who favor market economy as the pillars of industrial strength—the movers and shakers who constructively disrupt the status quo. *Forbes* comes out with a list of the world's and India's richest persons every year. Prior to the 1970s, this list used to be dominated by monarchs and heirs of family fortunes built up over years.

Today the list is replaced by entrepreneurs. Many of the world richest, like Jeff Bezos and Bill Gates and many more are entrepreneurs. Table 1.1 furnishes the details of top ten richest people in the world for the year 2017 and almost all of them are entrepreneurs. Similarly, Table 1.2 furnishes

Table 1.1.
Top Ten World's
Richest People¹⁶

Rank	Name	Country of Citizenship	Company	Net Worth
1	Jeff Bezos	United States	Founder amazon.com	\$ 112 B
2	Bill Gates	United States	Founder Microsoft	\$ 90 B
3	Warren Buffett	United States	Berkshire Hathaway (Wizard of Investing)	\$ 84 B
4	Bernard Arnault	France	LVMH	\$ 72 B
5	Mark Zuckerberg	United States	Facebook	\$ 71 B
6	Amancio Ortega	Spain	Zara	\$ 70 B
7	Carlos Slim Helu	Mexico	Grupo Carso (Telecom)	\$ 67.1 B
8	Charles Koch	United States	Koch Industries	\$ 60 B
9	David Koch	United States	Koch Industries	\$ 60 B
10	Larry Ellison	United States	Co-founder Oracle Corporation	\$ 58.5 B

- **Technology:** There is a need to facilitate commercialization of research and development through increased private-public partnerships and incentives for subcontracted research. There should be an improvement in technology transfers among universities, government, and entrepreneurs.
- **Governance and reduction of complex bureaucratic procedures:** There is a need to improve the quality of governance and leverage technology to reduce effort, cost, and time to set up new enterprises. There should be structural changes to simplify and streamline bankruptcy proceedings, and to change perceptions about bankruptcy and its impact on social status. The government should also emphasize the social responsibility and philanthropic aspects of entrepreneurs' success, not just wealth creation.

Indian entrepreneurs view bureaucracy as a major obstacle. There are a large number of procedures to be followed and clearances to be obtained to start and operate a business. Each of these procedures can take a long time. Corruption is widespread in some government departments and private-sector companies. There is a need to rein in corruption and reduce the complexity of bureaucratic procedures.

MODELS OF ENTREPRENEURIAL DEVELOPMENT

The models of entrepreneurial development are broadly classified into three categories:

- Psychological models
- Sociological models
- Integrated models

Psychological Models

The psychological model is based on the psychological approach to entrepreneurship. The essence of psychological theory is an understanding of the difference in individuals' attitudes. According to this theory, the internal attitude and ability to judge and forecast any situation lead a person to become a successful entrepreneur. David McClelland's theory on need for achievement is the most important among the various psychological theories on entrepreneurship. In his theory, McClelland emphasized the relationship of need for achievement or achievement motivation to economic development via entrepreneurial activities. He considers "achievement motivation" to be the major determinant of entrepreneurial development.

McClelland's Theory of Achievement Motivation David McClelland has explained entrepreneurial development from a psychological perspective. He considers entrepreneurs as people who do things in a better way and make decisions in times of uncertainty. He argues that motivation is an important determinant for entrepreneurial growth. The dream to achieve big things overpowers monetary or other external incentives. The McClelland Theory of Achievement Motivation holds that people have the following three motives for accomplishing things:

- Need for Power (nP), or the drive to influence others and any given situation.
- Need for Affiliation (nAff), or the drive for interpersonal relationship.
- Need for Achievement (nAch), or the drive to excel, advance, and grow.

McClelland suggests that all of these three needs may simultaneously act on an individual. However, in the case of an entrepreneur, the need for achievement is found to dominate.

Theory of Withdrawal of Status Respect (1964) Everett Hagen's concept of the entrepreneur is that of a "creative personality" interested in accelerating change and driven by a motivation to achieve. According to Hagen, entrepreneurial growth has been very gradual and may or may not

even occur in the same generation. In his theory of withdrawal of status respect, Everett Hagen's argument is that certain social changes may disrupt the stability of traditional society and cause psychological changes in a group or in an individual. The withdrawal of status respect may occur when a traditional, group is displaced from its previous status or on migration to some other place or to a new society.⁷ Hagen uses the case of Japanese history to substantiate his argument.

Internal-External Locus of Control Theory Professor J. D. Rotter of Ohio University introduced the Internal-External Locus of Control Theory, which highlights the self-confidence of a person, and the dependency on fortune and external environment for becoming an entrepreneur. According to this theory, the internal locus of control comprises self-confidence, extreme belief in one's own ability, and initiatives taken by an individual. Locus of control determines whether a person perceives a potential goal to be attainable through one's own actions (internal locus of control) or through uncontrollable external factors (external locus of control).

Sociological Models

The sociological theory of entrepreneurship holds social cultures to be the driving force behind entrepreneurship. The entrepreneur becomes a role performer in conformity with the role expectations of society. Such role expectations are based on religious beliefs, taboos, and customs. Max Weber, Hozelist, Thomas Cochran, and Frank W. Young all advocated a sociological explanation for the development of entrepreneurship.

Max Weber's Theory of Religious Beliefs According to Max Weber, religious beliefs are the driving or restraining forces for entrepreneurial activity. For one thing, religious beliefs play a crucial role in determining the attitude of the entrepreneur towards generating or limiting profits. Weber took the position that entrepreneurial growth is dependent upon the ethical values (due to religion) of society.

Weber stressed the spirit of capitalism, which promotes a favourable attitude in society towards the acquisition of wealth. Capitalism thrives under the Protestant work ethic that advocates hard work, honesty, and discipline. The spirit of capitalism, coupled with the motive of profit, results in the creation of a large number of successful business enterprises.

Weber distinguished between the "spirit of capitalism" and the "adventurous spirit." The spirit of capitalism is influenced by a strict discipline, whereas the adventurous spirit comes from the free force of impulse. The right combination of discipline and impulse defines the successful entrepreneur.

Hozelist's Sociocultural Theory According to Hozelist, a specific social culture leads to growth in entrepreneurship. Social sanctions, cultural values, and role expectations are responsible for the emergence of entrepreneurship. He also propounded that entrepreneurship grows in societies that permit variability in choice of paths of life and non-standard socialization of individuals. Hozelist's approach emphasizes the theory of deviance and assumes that those who introduce changes must be deviants since they reject the traditional way of doing things.

Thomas Cochran's Theory of Entrepreneurial Supply Thomas Cochran, in agreement with Hozelist, believed that the environment in which an individual is brought up determines his entrepreneurial urge. According to him, the supply of entrepreneurs in society needs to be seen with reference to prevailing child-rearing practices. He stated that the performance of the entrepreneur might be seen in reference to his own attitudes towards an occupation. Values and role expectations of the particular social group to which he belongs are the most important determinants in the performance of business entrepreneurial roles.

Frank W. Young's Theory of Group Level Pattern Frank W. Young's theory of entrepreneurship is one of change based upon society's incorporation of relative sub-groups within society. He said that groups can be reactive in two ways: If a group experiences low status recognition and denial of access to important social networks, and if the group possesses a greater range of institution resources than other groups at the same system level. These two factors bring development to the society. A group without anything will compete with other groups and also try

/ PART I: ENTREPRENEURIAL PERSPECTIVES

to acquire societal recognition. A sub-group that has a relatively low status in a larger society will lead to entrepreneurial behaviour if the group has better institutional resources than others in that society at the same level. Young's model of entrepreneurship suggests the creation of supporting institutions in society, such as the family, as the determinant of entrepreneurship.

Integrated Models

In search of an integrated approach, the behaviourists tried to synthesize psychology and sociology to explain entrepreneurship. However, there has been a dominant influence of psychological parameters in their interpretation of entrepreneurial behaviour. In Udai Pareek and T. V. Rao's theoretical framework for analysing entrepreneurship, they argue that there are some sequential propositions in human behaviour that lead to entrepreneurship. According to them, these propositions, which occur in sequence, ultimately end up in entrepreneurial development.⁸ According to T. V. Rao, the optimal presence of the following factors, which are additive in nature, leads to the initiation of entrepreneurship:

- Need for motive (achievement motivation)—the dynamic which is the main thrust behind entrepreneurial action.
- Long-term involvement in thought and action to achieve the goal in entrepreneurial activity.
- Personal, social, and material resources favourable to entrepreneurial activity.
- Sociopolitical system suitable for the establishment, development, and expansion of an enterprise.