Definition of Concepts

Entrepreneurship

Entrepreneurship is closely associated with new venture creation. The idea of entrepreneurship as the ‘identification, evaluation and exploitation of an opportunity’, itself suggests a focus on the early stages of setting up a new enterprise. Entrepreneurship and small businesses are the basis for economic development all over the world. They play an important role in employment, income and societal changes, particularly in transition economies. The systemic social and economic changes which underlined the early stage of transition created the conditions for the development of entrepreneurship and small firms.

Entrepreneurship and small businesses are the backbone of economic development all over the world. They play an important role for employment, income and societal changes, particularly in transition economies. This research report is concerned with the nature and the extent to which the entrepreneurship and small business in Kosovo has been developed so far, and outlines the main current and future challenges and prospectives for the development of the start up firms.

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Entrepreneurship has been recognized as an important element in explaining (regional) economic development. This means that the explanation of regional variations in entrepreneurship has also become an important issue. Even more so because there are pronounced differences within and between nations in rates of entrepreneurship.

Historically, the literature has often explained entrepreneurship as the product either of environments (like provision of venture capital (VC), growing demand) or of personal attributes (like risk-taking propensity, need for achievement). Individuals are heterogeneously endowed with knowledge (bounded rationality, prior knowledge), attitudes, and preferences and environments are heterogeneously endowed with institutions, inputs, and demand for products. The entrepreneurial process depends on entrepreneurial opportunities in the environment and enterprising individuals that identify and exploit these opportunities. Entrepreneurship is the result of the interaction between individual attributes and the surrounding environment.

The nature of entrepreneurship implies several images and meanings. We can understand the definitions of an entrepreneur. Inegbenebor and Igbinomwanhia (2011) define an entrepreneur as a person who has possession of an enterprise, or venture, and assumes significant accountability for the inherent risks and the outcome of the enterprise. According to Jones , George and Hill (2000), entrepreneurs are individuals who notice opportunities and take responsibility for mobilizing the resources necessary to produce new and improved goods and services. In other words, entrepreneurs start new business venture and do all of the planning, organising, leading and controlling necessary to meet organizational goals. Sharma (1999) defines entrepreneurs as the owners of the business who contribute the capital and bear the risk of uncertainties in business life. He organizes, manages, assumes the risks and takes the decisions about the enterprise. Scarborough (2014) defines entrepreneur as one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them. Drucker (1986) defines the entrepreneur as someone who always searches for change, respond to it, and exploits it as an opportunity. Kuratko (2014), defines 10 entrepreneurs are individuals who recognise opportunities where others see chaos, contradiction, and confusion. They are aggressive catalysts for change within the marketplace. The process of performing the roles of an entrepreneur is called entrepreneurship. Thus, we may define entrepreneurship as Barringer and Ireland (2012) opine as the process by which individuals pursue opportunities without regard to resources they currently control. Wilson(2004) defines entrepreneurship as the art of turning an idea into a business. Kuratko (2008), defines entrepreneurship as a dynamic process of vision, change, and creation. It requires an application of energy and passion toward the creation and implementation of new ideas and creative solutions. Essential ingredients include the willingness to take calculated risks in terms of time, equity or career, the ability to formulate an effective venture team; the creative skill to marshal needed resources; the fundamental skill of building a solid business plan; and finally, the vision to recognise opportunity where others see chaos, contradiction, and confusion. Stoner et al (2009) define entrepreneurship as the seemingly discontinuous process of combining resources to produce new goods or services. Jones et al (2000) define entrepreneurship as the mobilization of resources to take advantage of an opportunity to provide customers with new or improved goods and services. Bateman and Snell (2011) define entrepreneurship as a situation when an enterprising individual pursues a lucrative opportunity. Entrepreneurship is defined as the willingness and ability of an individual (or a group of individuals) to seek out investment opportunities, especially through innovation, establish and run the enterprise successfully. (Inegbenebor, 2003 unpublished lecture note). While there are several definitions of entrepreneurship, the central ideas of the concept incorporates uncertainty and risk taking, innovation, perception and change (Herbert and Link, 1989). 11 Entrepreneurs and entrepreneurship are more often associated with small and medium scale enterprises. This is because the vast majority of enterprises in which the entrepreneur plays a visible role are small and medium scale enterprises.

Entrepreneurship is driven by the entrepreneur, a person who launches and oversees the operations of a new business venture. The entrepreneur is generally self-employed, self-motivated, and ambitious and is willing to take chances to meet his or her goals. Unlike the capitalist, a businessperson who generally limits his or her role to financing commercial ventures, the entrepreneur is the driving force behind the formation of a new business and asserts a great deal of control over the key management decisions. Many entrepreneurs also assume responsibility for hiring and managing employees. Successful entrepreneurs tend to be highly skilled at organizing and motivating their employees.

Entrepreneur

An entrepreneur is an individual who creates a new business, bearing most of the risks and enjoying most of the rewards. The process of setting up a business is known as entrepreneurship. The entrepreneur is commonly seen as an innovator, a source of new ideas, goods, services, and business/or procedures.

Entrepreneurs play a key role in any economy, using the skills and initiative necessary to anticipate needs and bringing good new ideas to market. Entrepreneurship that proves to be successful in taking on the risks of creating a startup is rewarded with profits, fame, and continued growth opportunities. Entrepreneurship that fails results in losses and less prevalence in the markets for those involved.

- **An entrepreneur is a starter**

An entrepreneur is an initiator, a challenger and a driver. Someone that creates something new, either an initiative, a business or a company. He or she is the beginning (and sometimes the end) of a venture, project or activity. The entrepreneur might not be the ideator, but he or she is definitely the one that decides to make that idea a reality.

- **An entrepreneur is the driver**

The entrepreneur is the person in charge, the leader and the person to look to for leadership. He or she is the one that pushes forward and inspires a team to follow. The entrepreneur is the one that sits in the driver’s seat, and has the ability to change direction, accelerate, slow down or even stop a venture.

- **An entrepreneur is accountable and responsible**

The entrepreneur is the ultimate responsible for the destiny of its venture, which can be a company, a project, or any other endeavor. The entrepreneur is the one that has the highest stakes at the venture, thus the one that needs to be empowered to fully direct the endeavor. Being an entrepreneur is not directly related to having an equity stake in a company, but instead showcases the leadership-related points. Why do we tend to associate entrepreneurship with equity ownership (as value), instead of understanding it as the one that has the highest stakes in an endeavor, which sometimes gets translated into entrepreneurship.

Entrepreneurial firms

Entrepreneurial firms are structures promoting the exposure and development of concepts or ideas from every member of the firm. Functionally, such firms must have definite features allowing alternative views to come out. An entrepreneurial firm combines different features of the flexibility of entrepreneurship and firm, such as definite attention processes making it possible for senior and junior managers to draw the decision-makers' attention, definite decision processes (with remuneration schemes, adapted criteria, and incentives) explaining the acceptance of concepts or ideas, and an agile and flexible structure allowing the implementation.

Types of Entrepreneurial firms

- **Small business entrepreneurship**

A majority of businesses are small businesses. People interested in small business entrepreneurship are most likely to make a profit that supports their family and a modest lifestyle. They aren't seeking large-scale profits or venture capital funding. Small business entrepreneurship is often when a person owns and runs their own business. They typically hire local employees and family members. Local grocery stores, hairdressers, small boutiques, consultants and plumbers are a part of this category of entrepreneurship

- **Large company entrepreneurship**

Large company entrepreneurship is when a company has a finite amount of life cycles. This type of entrepreneurship is for an advanced professional who knows how to sustain innovation. They are often a part of a large team of C-level executives. Large companies often create new services and products based on consumer preferences to meet market demand. Small business entrepreneurship can turn into large company entrepreneurship when the company rapidly grows. This can also happen when a large company acquires them. Companies such as Microsoft, Google and Disney are examples of this kind of entrepreneurship.

- **Scalable startup entrepreneurship**

This kind of entrepreneurship is when entrepreneurs believe that their company can change the world. They often receive funding from venture capitalists and hire specialized employees. Scalable startups look for things that are missing in the market and create solutions for them. Many of these types of businesses start in Silicon Valley and are technology-focused. They seek rapid expansion and big profit returns. Examples of scalable startups are Facebook, Instagram and Uber.

- **Social entrepreneurship**

An entrepreneur who wants to solve social problems with their products and services is in this category of entrepreneurship. Their main goal is to make the world a better place. They don't work to make big profits or wealth. Instead, these kinds of entrepreneurs tend to start nonprofits or companies that dedicate themselves to working toward social good.

Tax implication of Entrepreneurial firms

Income taxes, capital gains taxes and payroll taxes leave individual entrepreneurs with less expendable capital. The higher the tax rate, the more capital is taken out of the hands of the entrepreneur and into the hands of the government. Therefore, theory holds that higher tax rates leave entrepreneurs with less money to reinvest in their businesses, leading to less job creation. Some economists and politicians also theorize that potential entrepreneurs may eschew small business creation entirely if they believe that high tax rates will substantially eat into their profits.

The precise impact that tax rates have on entrepreneurial firms and job creation is frequently debated, especially when changes to tax rates are on the horizon. This debate is often clouded by politics, and economists have yet to agree on exactly how large the rates of taxation typically loom in the minds of current and potential entrepreneurs.

The effect of taxation on entrepreneurs and startups can be generalized into a conceptual framework to understand the real-world influence of specific tax policy changes. Taxes influence the risks entrepreneurs take, the incomes they earn, and their fixed costs.

Taxing Entrepreneurs' Income

The income entrepreneurs accrue can be separated into two parts: capital income, or return to an entrepreneur's capital investment, and labor income, or "sweat equity." The latter type of income results from an entrepreneur's effort, skill, and luck, as the entrepreneur is both a business owner and an employee working for the enterprise. The income an entrepreneur earns will contain both capital and labor income**.**

Capital Income

The capital income that an entrepreneur realizes may contain a normal rate of return to waiting and a super-normal return that compensates her for risk-taking. Take, for example, an entrepreneur who earns $50,000 in income from a venture after two years of work and a capital investment of $10,000. A portion of that income represents a normal return to waiting; at 3.5 percent per year, the entrepreneur accrues about $10,715. Any return to capital above the normal rate of return is a super-normal return for engaging in risk. Contrast this with labor income, which is the portion of an entrepreneur's income that comes from putting her effort and skill into the firm.

A higher effective tax rate on entrepreneurs drives up the required gross return an entrepreneur needs to move forward on an investment. The higher gross return covers the additional tax levy, keeping the net return the same as before. If that gross return is not expected to be met, the entrepreneur may reconsider their plans given the opportunity costs.

An increase in the rate of income tax reduces the total expected rate of return by reducing the return to an entrepreneur's imputed labor income. In the case of an entrepreneur facing a 2 percent increase in her effective marginal tax rate, every additional dollar earned by applying more labor into the venture is taxed at that higher rate. The entrepreneur's expected return on capital, by contrast, is not affected by the increased tax rate.

Labor Income

An increase in an entrepreneur's tax rate reduces her labor incentive on an extensive and an intensive margin. An entrepreneur may decide to work fewer hours or apply less effort in the business or could decide that it is not worth it to expend any effort given her expected rate of return to her labor.[19]

Often, entrepreneurs sustain losses before realizing a super-normal return upon maturing their venture. The intervening time may be used to develop and market a new product or business model, increase market share, and scale the startup to a sustainable firm that can capture the super-normal return. The firm may also appreciate over time, which represents accrued value for the entrepreneur's labor and capital.

A key driver of the influence of taxes on entrepreneurship is how it changes incentives to engage in effort on the margin. Many entrepreneurs may obtain rates of return above a change in the rate of income tax, earning "inframarginal" returns that are insensitive to the rate change. This is not relevant when evaluating the aggregate effect of a tax rate change on entrepreneurship overall, as entrepreneurs decide to move forward with ventures at the margin. In other words, it is the venture that is on the edge between being profitable and making a loss that will be sensitive to a tax rate increase, affecting the total amount of entrepreneurship in the economy.

The Effect of Taxation on Entrepreneurs’ Fixed Costs

Fixed costs imposed by taxation have a different effect on an entrepreneur’s expected return than variable costs do. Fixed costs are expenses that do not change with an increase or decrease in the volume of goods or services sold by a firm. Examples of fixed costs imposed on entrepreneurs include tax compliance and complexity, which must be navigated as a precondition of entry by an entrepreneur.

Fixed costs created by tax compliance and complexity determine entrepreneur’s decision to enter or exit an industry if the costs overwhelm the expected return on investment. It also lowers the total return expected from an investment at the beginning on a venture, which could deter firm entry if other opportunities would yield a higher return. Costs imposed on the margin, such as marginal income tax rates, also play a role in determining if an entrepreneur decides to move forward with a business opportunity.

Conclusions

An entrepreneur takes an idea or product and creates a business, a process known as entrepreneurship. Creating a business requires a lot of work and dedication, which not everyone is cut out for. Entrepreneurs are highly motivated risk-takers that have a vision and sacrifice a lot to achieve that vision. Entrepreneurs enter the market because they love what they do, believe their product will have a positive impact, and hope to make profits from their efforts. The steps entrepreneurs take fuel the economy; they create businesses that employ people and make products and services that consumers buy. Entrepreneurial firms transform and develop communities. Entrepreneurs create ways to connect resources and growth across cultures, policy contexts, economic conditions and political situations that differ from a region to another (Carrasco-Monteagudo and Buendía-Martínez 2013). They must create strategies that will ultimately resolve major economic and social challenges and, in this sense, improve the quality of life of the region where they are located (Godar, O'Connor, and Taylor 2005).

Taxes give governments the means to provide public goods for their citizens, and can be used to redistribute income from wealthy to poor citizens. Aside from these roles, taxes can have strong effects on economic behavior, in particular entrepreneurship, which is an important driver for innovation and economic development. Entrepreneurs and new firms turn research and development (R&D) and knowledge into innovation while also creating jobs.

Tax policy can influence the decisions entrepreneurs make to enter an industry, invest, and engage in risk-taking through two channels: the tax rates entrepreneurs' face on their income and the structure of the tax policy.

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