



# ENTREPRENEURSHIP: THEORY & PRACTICE (HS308)

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Course Instructor

**Dr. Ankita Sarmah**

Assistant Professor

Department of Humanities and Social Sciences

IIIT Guwahati



# SYLLABUS

**Entrepreneur and Entrepreneurship:** definition, theory, types of entrepreneurship, significance of entrepreneurship, entrepreneurship and economic development, entrepreneurial motivation training (EMT)

**Innovation and Entrepreneurship:** creativity, innovation viz., technological innovation and scientific knowledge, success factors for entrepreneurship

**Business Planning and Mitigating Risks:** the concept of a planning paradigm, the four stage growth model, fundamentals of feasibility plan, search for an opportunity and selecting the right product (Product Design), market survey and research, techno-economic feasibility assessment, preliminary project report (PPR), formulating detailed project report (DPR)

**Sources of Capital and Stock Management:** project financing fixed and working capital requirements, equity financing, securities market, venture capital, debt financing, banks and financial institutions and other non-bank financial sources, management of working capital, costing, break-even analysis concept and implications for planning and decision making

**Entrepreneurship and Small Businesses & Start-ups:** importance of small business, life cycle of a small company, small business sector in India from SSIs to MSMEs, strategic guidelines and objectives for the development of small business enterprise

**Case Study and Industrial visit**



# CONTENTS



## **Entrepreneur and Entrepreneurship:**

Definition, theory, types of entrepreneurship, significance of entrepreneurship, entrepreneurship and economic development, entrepreneurial motivation training (EMT)



# INTRODUCTION & DEFINITION

- Entrepreneur is derived from the French word “**entreprendre**” and the German word “**unternehmen**” and both the words mean to “**undertake**”
- **Webster Dictionary** “entrepreneur” is pertinent to one who **organizes, manages and assumes the risk** of a business or enterprise
- **Schumpeter** “entrepreneur is one who **innovates, and introduces something new** in the economy”
- **J. B. Say** holds that an entrepreneur is one who **shifts the economic resources** out of a low productivity area to an area of higher productivity and yield
- For **Gartner** entrepreneur is he who **establishes a new organization**
- Summarizing the extensive connotations on entrepreneur, we can chalk out that an entrepreneur is one who **identifies the opportunities, combines all the four factors of production and converts business ideas into reality** with an **underlying risk** quotient.



Entrepreneurship is a method by which individuals become conscious of the opportunities in the environment that occurs to empower themselves and make them to take personal responsibility and initiative.

In today's globalized world, **entrepreneurship is not only limited to just raising income and profit but also in altering the business structure and the society.**

Apart from an overall development it is also concerned with increasing the standard of living of them and the people related with the entrepreneurial process.

To quote **Shane et al.**, (2003) “entrepreneurship is a process that begins with the recognition of an entrepreneurial opportunity and is followed by the development of an idea for how to pursue that opportunity, the evaluation of the feasibility of the opportunity, the development of the product or service that will be provided to customers, assembly of human and financial resources, organizational design, and the pursuit of customers”.



# THEORIES OF ENTREPRENEURSHIP

In economic development process, entrepreneurs have been assigned a crucial role so that tempo of growth is maintained effectively. Development requires basic changes and entrepreneurs carry out the required changes. Thus, entrepreneurial development brings economic development.

Meaning & Definition of entrepreneurship is **Multidisciplinary** viz., economics, sociology, psychology, anthropology, etc.

**William J. Baumol**, “Economic theories has failed to provide a satisfactory analysis of either the role of the entrepreneurship or its supply”.

**No universally accepted theory of entrepreneurship.**



However, different theoretical assumptions of entrepreneurship focus on three major aspects of entrepreneurship: **Nature of Opportunities**, **Nature of Entrepreneurs** and **Nature of Decision Making framework within which an entrepreneur functions**.

These three aspects give rise to two theories viz., **discovery theory** and **creative theory**.

- **Discovery Theory:** includes Individual/Opportunity (I/O) view, which lays emphasis on the **identification, existence, and exploitation of opportunities** and their influence of individuals. The individuals and the opportunities have influence on each other. For example, an opportunity comes into existence only when an individual identifies it, simultaneously an individual takes up the entrepreneurial activity because of the existing opportunity.

Different individual has different ability of recognizing opportunities.

Individuals can only discover and avail opportunities, but cannot create opportunities. They apply a unique combination of resources, means they do things differently to bring innovation.

**Risk bearing** is an essential part according to I/O



- **Creation Theory:** focuses on entrepreneurs and the creation of enterprises.

Opportunities are not recognized by individuals, but created by them. The creation theory suggests that entrepreneurship does not require differences in individuals, but **differences in their decision making** under uncertainty. According to the **creation theory, an entrepreneur is someone, who organizes resources after evaluating the value of probable outcomes.**

**Individuals bear uncertainty not risk.** The creation theory suggests that entrepreneurs create opportunities and act on them after estimating the probability of their success.

Thus, bear uncertainty not risk.

Thus, the creative theory suggests that **opportunities are subjective, individuals are ordinary, and entrepreneurs are uncertainty-bearers.**





# PSYCHOLOGICAL THEORIES OF ENTREPRENEURSHIP

When entrepreneurship is termed as psychological concept and process.

Accordingly, the **psychological factors are the primary source of entrepreneurship development** (attitude, perception, motives, self-reliance, etc.).

The main psychological theories are as follows:

- (i) Joseph A. Schumpeter Theory- **Innovation Theory**
- (ii) David C. McClelland Theory- **Achievement Theory**
- (iii) Everret E. Hagen's Theory-**Status Withdrawal Theory**
- (iv) John Kunkell Theory-**Theory of Entrepreneurial Behaviour**



# SOCIOLOGICAL THEORIES OF ENTREPRENEURSHIP

The supporters of sociological theory says that the entrepreneurial activities is affected from **social status, hierarchy and values**.

**Individuals' position, tradition, cultural values, mobility and social status** etc. are thoroughly effected to entrepreneurship development.

Main sociological theories:

- i. Frank W. Young Theory
- ii. B.F. Hoselitz Theory
- iii. Max Weber Theory- **Theory of Religious Belief**
- iv. Cochran Theory-**Theory of Entrepreneurial Supply**
- v. Stocke's Theory.



# ECONOMIC THEORIES OF ENTREPRENEURSHIP

**Economic Theory** – Entrepreneur executes all activities due to economic incentives. The main aim of this theory is **profit motive**.

J.R. Harris and G. F. Papanek, “The inner drive of a man is associated with **economic gains**, which drive him into economic activities. Therefore, they regard economic gains as a pre-condition for the supply of entrepreneurs.”

1. Theory of Functional Behaviour – Casson
2. Theory of Economic Incentives – Papanek and Harris
3. Theory of Adjustment of Price – Kirzner
4. Theory of X-Efficiency-Leibenstein
5. Theory of Harvard School
7. Theory of Profit-Knight
8. Theory of Market Equilibrium-Hayek

Cultural theories pointed out that entrepreneurship is the **product of the culture**.

Entrepreneurial talents come from **cultural values and cultural systems** embedded into the cultural environment.

Main Cultural theories:

1. Hoselitz theory- **Theory of Imitating**
2. David Stoke- **Theory of Social Culture**



# Innovation Theory

Propounded by **Joseph Alois Schumpeter**, entrepreneur is basically an **innovator** and innovator is one who **introduces new combinations**.

Entrepreneurs take the stationary economy to a new level of development by adding **innovation** and **creativity** of their own.

Schumpeter makes a distinction between an innovator and an inventor.

**An inventor discovers new methods and new materials.**

**An innovator is one who applies inventions and discoveries in order to make new combinations.** Using the new combinations, s/he produces newer and better goods which yield satisfaction as well as profits.

Entrepreneurs bring innovation:

1. By **reducing the cost of production**
2. By **increasing the demand** for the products



Primary role of an entrepreneur-

1. Introduce a new product
2. New production method
3. New market
4. New source of supply of raw materials
5. New Industry structure (creation of a monopoly position through trustification or the breaking up of a monopoly position)

Innovation theory is separated into 2 categories viz., **Creative Destruction & Profit**

**Creative Destruction-** includes those activities that reduces the overall cost of production. Refers to the constant **product** and **process innovation** mechanism by which new production units replaces the old ones. (OTTs, Netflix over CDs & DVDs)



# Innovation Theory

**Profits**- either by reduced cost of production or increasing the demand for the product. Leads to increased wealth, but innovation gives **rise to competition** and competition might **reduce profits**. So innovation (problem of innovation) needs **patents** and **intellectual property**.

## Limitations:

1. It excludes individuals who merely operate an established business without performing innovative functions.
2. It laid too much emphasis on innovative functions. But it ignores the risk taking and organising aspects of entrepreneurship.
3. It assumes an entrepreneur as a large scale businessman. He is a person who creates something new. But in practice, an entrepreneur cannot have large scale operations from the very beginning.



# MAX WEBER THEORY

Max Weber - took the stand that entrepreneurial growth was dependent upon **ethical value system of the society concerned**.

Weber, “A person who lives in which community, religion and follows the conventions and religious values.”

Selection of occupational pursuits is affected from religious and social values.

Religious and moral values are affected to people's attitude, thinking power.

His treatment of the protestant ethic and the spirit of capitalism.

Max Weber- Spirit of rapid industrial growth depends upon a **rationalised technology, acquisition of money** and its **rational use for productivity and multiplication of money**.

These elements of industrial growth depend upon a specific value orientation of individuals i.e. the tendency of acquisition and rational attitude towards action which are generated by ethical values.





# MAX WEBER THEORY

Max Weber - Spirit of rapid industrial growth depends upon a **rationalised technology, acquisition of money and its rational use for productivity and multiplication of money.**

These elements of industrial growth depend upon a specific value orientation of individuals i.e. the tendency of acquisition and rational attitude towards action which are generated by ethical values.

The **modern economic development** is explained to a greater extent, by the **social factors**. This becomes more prominently evident when we contrast the Indian culture with that of the western of particularly of the American culture.

Even if we contrast the different sub cultures within the same larger society, the story of economic development is explained.



# MAX WEBER THEORY

**Spirit of Capitalism** – Capitalism is an economic system in which economic freedom and private enterprise are glorified, so also the entrepreneurial culture.

**Adventurous Spirit** – Webber also made a distinction between spirit of capitalism and adventurous spirit. Accordingly, the **former is influenced by the strict discipline whereas the latter is affected by free force of impulse.** Entrepreneurship culture is influenced by both these factors.

**Protestant Ethic** – According to Webber, capitalism can be grown only when the mental attitude in the society is favourable to capitalism

**Inducement of profit** – Webber introduced the new businessman into the picture of tranquil routine. The **spirit of capitalism intertwined with the motive of profit resulting in creation of greater number of business enterprises.**



# THEORY OF PROFIT

Propounded- Knight, Frank H

He points out that entrepreneurs are specialized group of persons who **bears risk** and deals with **uncertainty**.

Main features of this theory are **pure profit, situation of uncertainty, risk bearing capability, guarantee of specified sum, identification of socio economic and psychological factors, use of consolidation techniques to reduce business risks.**

Entrepreneurship and economic growth take place when the economic conditions are favourable. Economic development takes place when a country's **real national income increases** overall period of time wherein the role of entrepreneurs is an integral part.

**Economic incentives** are the **main motivators for entrepreneurial** activities.

Economic incentives include taxation policy, industrial policy, sources of finance and raw materials, infrastructure availability, investment and marketing opportunities, access to information about market conditions, technology etc.



# THEORY OF PROFIT

Profit motive is the prime driving force that change an individual into an entrepreneur.

As such an **entrepreneur emerges due to incentives and economic profit.**

**Desire of increasing actual income and economic gains** exist in any type of society.

This tendency creates the spirit of economic development.

They believe that the **economic incentive** is the basic condition of entrepreneurship.

Entrepreneur finds those situations in which he can earn profit by producing goods at low cost or purchasing goods at less prices and sell those goods at higher prices in market, he will take all possible steps and tend to act.

The theory emphasises on economic gains and economic incentives which emerge the entrepreneurial class in a society.



## Bert F. Hoselitz

Entrepreneurship is governed by **cultural factors** and **culturally minority groups** are the spark-plugs of entrepreneurial and economic development.

Entrepreneurs have emerged from a particular **socio-economic class**.

Hoselitz reveals that in several countries entrepreneurial talents are found in persons having **particular socio-economic background**.

He emphasized the role of **culturally marginal** groups like Jews and the Greeks in medieval Europe, the Chinese in South Africa and Indians in East Africa in promoting economic developments.

Further he has emphasized on the theory through examples of Christians contributes to entrepreneurship in Lebanon, Halai Memon industrialists in Pakistan and Marwaris in India.



# TYPES OF ENTREPRENEURSHIP



# INTRAPRENEURSHIP

‘Intrapreneur’ was first used by **Gifford Pinchot III** and **Elizabeth Pinchot** in 1978.

Pinchot (1984) further defined intrapreneurs as “dreamers who do. Those who take **hands-on responsibility for creating innovation of any kind, within a business.**”

Intrapreneur focuses on **innovation** and **creativity**, and **transforms an idea into a commercial venture**, while operating **within** the **corporate** environment.

Thus, intrapreneurs are **intra** (within organization) entrepreneurs who nurture their creativity while following goals of the organization.

Intrapreneurship can be used as a tool of motivation through job design, either formally or informally.

Intrapreneurship is a structure that permits an employee to **behave like an entrepreneur within a business.**



# INTRAPRENEURSHIP

An intrapreneur knows that failure does not have the **exact personal costs** as it does for an entrepreneur because the company bears the costs of failure.

The organizations must **recognize and acknowledge the efforts of intrapreneurs** to motivate them and foster healthy competition.

It is a great challenge to recognize their effort because companies need to segregate their efforts from those of the team.

These individuals initiate the ideas however the teams implement the same.

The managers must handle intrapreneurs judicially and must also recognize the efforts of executive teams for transforming thoughts to products.

In this age of automation, more and more companies are retraining employees and urging them to learn new technologies.





# INTRAPRENEURSHIP

- **Google** is known to be an **intrapreneur friendly** employer and encourages innovations by employees. The organizations need to give time to their employees for them to explore creative domains and work towards improving product qualities or develop better processes.
- Most of the **technology giants** are focusing on ‘**innovation**’ and ‘**creativity**’ to strive through challenging times.
- e-choupal, an ITC division germinated when Sivakumar, a manager in the ITC Group’s agribusiness unit, approached ITC’s chairman, with a request of Rs. 50 lakh to test an idea. He wanted to procure farm produce from soya farmers in Madhya Pradesh, thereby eliminating middlemen.
- Today, e-Choupal, reaches out to over 4 million farmers growing a range of crops in over 40,000 villages across 10 states.
- Web-based page, to link directly with rural farmers via the Internet for procurement of agricultural and aquaculture products like soybeans, wheat, coffee, etc. (June 2000)



# INTERNATIONAL ENTREPRENEURSHIP

International entrepreneurship is the practice of an entrepreneur **operating their firm in another nation**. This implies the **firm's expansion worldwide** since an entrepreneur performs all business operations outside the national borders.

These are the industries that operate **outside of their country's borders**.

They transcend the border and expand their ventures into more than one country. As they face more than one economy, they have to deal with different challenging issues. Crossing the borders is becoming increasingly important and lucrative as consumers also look at the global marketplace.

International entrepreneurship is beneficial when the **demand for goods and services is declining in the domestic market and the demand arises from the international market**.

These types of entrepreneurship include exporting goods, obtaining licenses, and opening a sales office abroad.

It is often seen as a natural progression with increase in size and scale of business. It also includes startups that focus on international markets through their very inception.

**Amazon, Google, Microsoft, Yahoo, TikTok, Facebook, etc.**



## Importance

- **Access to a larger customer base** – It allows entrepreneurs to sell their ideas across national borders.
- **Better profitability** – Spreading of costs and increased sales can help in generating better profits in the long-run.
- **Economies of large scale** – Producing higher volumes of products leads to optimum utilization of existing capacities and brings down per unit costs.
- **Brand building** – The establishment of a company as a trustworthy brand reaps great benefits in the future.
- **Inspiration for startups** – International entrepreneurs are role models of various budding entrepreneurs.
- **Increased competitiveness** – Companies tend to produce better products and constantly urge to improve to sustain international competition.



# INTERNATIONAL ENTREPRENEURSHIP

- **Global standards** – Meeting satisfaction levels of international customers' helps in maintaining world-class quality standards.
- **Harnessing cheaper resources** – Access to international markets also paves way for the companies to hire cost- effective labor and material.
- **Growth of domestic brands** – Mother's pickles, MDH spices and Haldiram's range of products are examples of how Indian brands have gained global recognition through persistence efforts.

## Challenges

- **Exposure to Varying Ecosystems**- An entrepreneur needs to understand different economies at the same time and **address their individual and collective issues** simultaneously. Domestic business limits entrepreneurial activities to be designed according to the needs of one economy. There may be differences in culture, political processes or legal legislations of different countries.
- **Cultural Diversity**-The entrepreneur must handle diversity amongst the workforce and customers sensitively. There might be huge cultural differences between country of origin and country of consumption.



# INTERNATIONAL ENTREPRENEURSHIP

- **Level of Economic Development**-An entrepreneur has to classify various countries into under-developed, developing and developed economies and customize products and services accordingly. There are **significant differences in product demand, customer awareness, and openness towards new products depending upon economic development**. For example, using digital means of payment has picked up pace after demonetization in India but the level of online transactions in developed economies is different.
- **Level of Technological Advancements**-Developed economies have far better and updated technologies than their developing counterparts. It is necessary to understand customer expectations and their current level of satisfaction to act as gap filler. Mere reproduction of existing products would not yield success.
- **Regulatory Environment and Political Stability**-These two factors play an important role in defining the “**ease of doing business**” in any country. For instance, the Indian government has been working really hard to scale up in ‘ease of doing business’ rankings. **Political instability** and **outdated laws** are **regressive** in nature and do not contribute towards growth of entrepreneurs. <sup>29</sup>



# TECHNOPRENEURSHIP

“Technopreneurship” = “technology” and “entrepreneurship”.

First used in 1987, but it gained popularity in the early 2000s with the spread of the Internet.

Refers to **entrepreneurship through technical innovation**.

These entrepreneurs develop their business proposals on the **basis of technical innovations and advancement**.

The **foundation of the products and services of such a business is technology**.

They themselves **develop some** of them while others **may customize technologies** used in developed countries according to the needs of developing economies.

These types of entrepreneurship need **tech-savvy, inventive, creative people willing to take calculated risks**, unlike other forms of entrepreneurship, which may frequently be a one-person show.

Jeff Bezos, founder of Amazon, Bill Gates, founder of Microsoft, Steve Jobs founder of Apple, etc.



# TECHNOPRENEURSHIP-INDIA

The **National Science & Technology Entrepreneurship Development Board (NSTEDB)**, established in 1982 by the Government of India is an **institutional mechanism to help promote knowledge driven and technology intensive enterprises**.

**Technology Innovation Management and Entrepreneurship Information Service (TIMEIS)**, is a joint project of NSTEDB, Department of Science & Technology, GOI and FICCI is now one of the credible ladder towards the enhancement of India's entrepreneurial economy.

The project has taken initiatives to **provide guidance and assistance** to the entrepreneurs especially the technopreneurs to find **technologies, projects, funding options and information about policy environment, incentive schemes and industrial infrastructure available in the country covering both the central and state government** and have become proficient at tapping the local talent pool.

**TIMEIS** facilitates entrepreneurs with “Online Interactive Tools and Templates” for developing ‘Project Profile’, ‘Feasibility Reports’, calculating ‘Financial and Profitability Ratios’ and estimating the ‘Market Potential’.



Entrepreneurship through the **Internet as a medium** is netpreneurship.

When some entrepreneurs use the **Internet as a channel of reaching their customers, launching products through web portals.**

These entrepreneurs have **redefined supply chain management and have reached a step closer to the end consumer.**

Their **virtual existence, less staff** and **elimination of middlemen** has given them an edge as they have been passing benefits to consumers in the form of 'low priced' goods or good discount offers.

Successful examples of the Indian diaspora including Flipkart, Snapdeal, Zomato, Zivame, Meesho, Justdial, etc.





# ECOPRENEURSHIP

Initially it was referred to as “**environmental entrepreneurship**”.

Schuyler (1998), “**An Entrepreneur’s business efforts are not only driven by profit, but also by a concern for the environment**”

Entrepreneurs develop **environmentally conscious firms, combining profit maximization** with the desire to produce a more sustainable environment around them and their company.

They also try to **replace the existing product or services** with products that are environmentally safe to use.

Garden planning, energy auditing, composting business, green consulting, publishing an audiobook, etc.

Energy efficiency starts on electrical appliances, move towards LED and CFL lights, growing popularity of organic eatables and use of jute bags.

Ecopreneurs/green entrepreneurs are the entrepreneurs who base their businesses on **principles of sustainable development**. They are the new age of **environment-conscious** change agents who are rewriting the way business should be steered and are **launching eco-friendly innovations** for betterment of the human race along with financial gains.

## Drivers

- To **promote economic growth through environmental awareness**. There is a need to control economic activities otherwise to safeguard economic development of generations to come will be difficult.
- **New and innovative eco-friendly technologies have a greater scope of sustainability** in the long-run than gap-filling arrangements.
- **Judicial use of finite natural resources** is a prerequisite to fight climate change.
- **Global population growth** is an important driving force behind entrepreneurial businesses.



# SOCIAL ENTREPRENEURSHIP

A type of entrepreneurship in which entrepreneurs **recognise a social problem** and tailor their activities to create social value.

Such entrepreneurs develop services, solutions or products to **solve critical social issues** and bring about **social change**.

The **motivating factor of social entrepreneurship is achieving social benefits**.

Primarily focuses on **building social capital without assessing performance in profit or return in monetary terms**, in contrast to general and common business entrepreneurship, which is initiating the start of a new firm or diversifying an existing one.

This social change could be related to environment conservation, animal rights protection or philanthropic activities for the underserved community.

Social entrepreneurs **work for non-profit or non-governmental groups** that raise money through fundraisers in their local communities.

Non-profit social enterprise is Rang De. It is an internet platform that Ramakrishna and Smita Ram founded in 2008. It was for the poor people in India's rural and urban areas to get microcredits with interest rates as low as 2% annually. They offered direct lending to borrowers, tracking investments, and receiving recurring payments online for lenders nationwide.



# SMALL BUSINESS ENTREPRENEURSHIP

Created by a single individual.

**Process of developing, launching, and running a small business enterprise.**

Small businesses typically include a **lean and agile staff** with **modest business operations** that grow organically.

As small businesses are small and **lack the innovative factor**, they **fail to attract venture capital** for smooth running.

They usually **fund their ventures themselves or take up loans** from friends and family members.

The **employees** are usually **local people** or family members.

**Small Scale Industries (SSIs), Micro Small and Medium Enterprises (MSMEs), Small and Medium Enterprises (SMEs), etc.**

Local hairdressers, grocery shops, milk booths, etc.



# LARGE COMPANY ENTREPRENEURSHIP

Refers to an **existing corporation** that can **create a new business segment** through entrepreneurship.

Large company entrepreneurship is the process of established companies **innovating new products, services, and ideas** based on market considerations.

Large company entrepreneurship aims to **reinvent an existing brand to make it more valuable and relevant** to the current marketplace.

These companies **sustain because of innovation** and it is the best choice for advanced professionals who know how to sustain innovation.

Small business entrepreneurship witnessing accelerated growth can become large company entrepreneurship in no time.

This is also possible when a large company acquires them.

**As a large company's products near the end of their product life cycle, the company can innovate by bringing new products to market that meet changing consumer demand.**

Companies like Nestle, Samsung, etc. use large company entrepreneurship to stay competitive, rolling out new product lines to ensure that consumers stay loyal.



# SCALABLE STARTUP ENTREPRENEURSHIP

**Scalability** - Ability of a company to sustain or better its performance in terms of profitability or efficiency when its sales volume increases.

Companies concentrating on **finding newer ways to develop scalable and repeatable business models** focusing on greater sales with greater resources.

Entrepreneurs engaged in this type of entrepreneurship **pursue profitable business ventures that fill an immediate need in the marketplace with high potential for growth.**

Scalable startup entrepreneurship **recognises what is missing in the market and creates a solution.**

Scalable startups intend for **rapid business growth and substantial financial gain.**

The narrative behind these types of entrepreneurial businesses is **starting small and gaining great success** with innovation.

Meta and Uber that started small and grew into international entrepreneurship.

1mg, Pharmeasy, Netmeds, etc.



# SIGNIFICANCE OF ENTREPRENEURSHIP

- Entrepreneurship helps in **incrementing employment opportunities**.
- Entrepreneurship helps in **capital formation**.
- Entrepreneurship helps in **harnessing local resources**.
- Entrepreneurship helps in **preventing industrial slums**.
- Entrepreneurship helps in **defusing social tension**.
- Entrepreneurship helps in **eliminating poverty and unemployment**.
- Entrepreneurship helps in **Balanced Regional Development**
- **Life-Line of Nation-** No country can progress without the development of entrepreneurship. Every country is trying to promote its trade so that it is able to share the benefits of development. Therefore, entrepreneurship is the yardstick to measure the level of development of a country.



# SIGNIFICANCE OF ENTREPRENEURSHIP

- **Social Benefits-** Entrepreneurship is beneficial not only to the business enterprises but to the society as a whole. It **raises the standard of living of the people** by providing good quality products and services at the lowest possible cost. It also makes the optimum use of scarce resources and promotes peace and prosperity in the society.
- **Reduction in Socio-Economic Problems-** Entrepreneurship development helps in promoting industries, creating employment, income and saving and increasing capital formation rate. All the earlier facts help in eradicating problems such as poverty, low cost of living standard, social crime, dowry, violence, child labour exploitation etc.





# BARRIERS TO ENTREPRENEURSHIP



- Economics Barriers
- Non Economics Barriers



# Economic Barriers

## Capital

Capital is the most important prerequisite for setting up the new enterprise.

It is a lubricant to the process of production.

Money is the resource that helps **mobilise other resources** like men, materials and machines. Entrepreneurship in any society increases with the increase in the supply of capital.

Thus, lack of availability of capital with any society or nation acts as a serious barrier for promoting entrepreneurship in that society.

## Raw Material

In the absence of raw material no enterprise can be established and in the absence of enterprises the entrepreneurs do not emerge.

The lack of raw materials is normally the greatest economic barrier for growth of entrepreneurship.



# Economic Barriers

## Labour

It is the **poor quality of labour** rather than inadequate quantity of labour force that acts as a real barrier to entrepreneurship.

Cheap labour of a developing country may primafact appear to be strength in promoting enterprises, but the fact is that **cheap labour is often unproductive or has a low level of productivity**.

**Unskilled and low productive labour acts as a barrier** in setting up modern enterprises.

However, by using labour saving innovations, the innovative entrepreneurs have been able to overcome the disadvantage of high cost labour in developed economies.

**Retaining Skilled Labour from the stiff competition.**

## Tax Burden

In many regions, the government charges high taxes from even small start-up ventures and has tedious procedures for compliance of tax submission formalities.

In order to promote entrepreneurship, the governments would need to have **rational tax structures with easy tax submission procedures**.

Otherwise, **high taxes add to the cost of operations** for a start-up company, thus weakening its competitive position for survival and growth.

**High taxes in a region also pose an entry barrier for entrepreneurs.**



# Personal Barriers (Non-Economics Barriers )

In a given environment few people take up the career of entrepreneurship.

Even among the societies which are considered entrepreneurially progressive only selected few ventures set up their own enterprises.

This indicates that **personal barriers prevent people from launching their enterprises.**

## **Lack of Sustained Motivation**

It is easy to attain a high level of commitment, enthusiasm and motivation at the initiation stage of an enterprise. However, when the project is off the ground or faces the first obstacle the initial level of interest gradually wanes off.

Entrepreneurship requires a sustained level of motivation and commitment and it is often difficult to sustain this motivation against the initial hurdles. Maintaining a pace for entrepreneurship requires emotional qualities of toughness and persistence which are normally at odds with enthusiastic or manic type of personalities that are best suited for the initial phase.

People normally lack motivation to initiate a new venture and take the risk of setting up an enterprise. Those who cross this hurdle have a more difficult task of **maintaining this motivation** while facing different obstacles in setting up the new enterprise.



## Difficulty with Ambiguity

Most people are more at ease with certainty than with uncertainty.

Entrepreneurs do need an ability to bring order to chaos and their first requirement is “**to be able to tolerate chaos**”.

## Inability to Dream and Use Subconscious

When a deadline is fixed for an assignment, the initial progress is slow and gains pace when the last minute approaches. Most people do their best work immediately prior to the final deadline as they allocate enough time in the early stages of the assignment to store up the information in their subconscious. This is because **one needs time for ideas to ‘incubate’**. That is why when one faces a difficult problem, one is advised to “sleep on it”.

This recognises the power of the **subconscious, the underused part of one’s intellect**. The entrepreneur needs to use **both parts of his intellect, the subconscious for incubation of ideas and conscious for resolution of problems**.



## Impatience in Solving Problems

Entrepreneur has to find more creative, imaginative and sustainable solutions. Thus, setting up an enterprise needs a lot of patience and an eye for details by the entrepreneur. This attitude of finding quick solutions prevents people from setting up the enterprise and acts as a barrier to entrepreneurship.

## Risk Avoidance

Ned Heizer, who founded Heizer Centre for Entrepreneurship Development at Northwestern University's Kellogg School, believes that business schools teach students to avoid risk and that big companies build the avoidance of risk into their management structure. He says that analysis of both is limited to risk analysis and the belief that "no one is paid to take risks". Entrepreneurs are less risk averse than the traditional managers and spend more time analysing how to get something done, rather than worrying about what to do if they fail.

To entrepreneurs, risk is merely one factor of the risk-reward equation; risk is a flashing yellow traffic light that you glance at as you whiz by on the road. To (managers) others, however, risk is a barrier; risk is flashing red traffic lights that you keep your eyes on and that makes you stop. **Risk is real, but perception varies.**



## Lack of Clear Perception

An entrepreneur is one who can easily identify an opportunity and exploit it for commercial gain. Most people will agree that the number of times they have failed in seeing an opportunity or an obvious solution to a problem. When the opportunity is exploited by others, they realise how their perception was biased in some way or the other. Normally one is swayed by irrational prejudice and tries to impose one's pre-conceived ideas as a solution. This behaviour is a major barrier to entrepreneurship.

## Lack of Confidence

Many people think that they lack what it takes to become an entrepreneur. They look at successful entrepreneurs and think that they could never emulate them. To be fair, they probably couldn't. They think that they would never be able to find a successful idea or would be unable to attract the resources required and therefore dismiss the thought of becoming self-employed as irrelevant. They may regard themselves as risk-averse and feel that running a business is too risky. They may not feel that they could master all the necessary skills.



# Societal Barriers (Non-Economics Barriers )

## Cultural Block

People are bound by their cultural values. Every society lays down some unwritten norms of acceptable behaviour. All members of that society are required to follow these norms. If such norms are broken, the society does not approve of the resultant behaviour and exert direct and indirect pressure on the individual to conform to a particular way, purely because it is customary. Ground rules of social behaviour are learnt from the parents at a very early age.

During school days, the support and approval of others is conditional on certain standards relating to good behaviour, good exam-results and so on. Even at home and office, the conformity is at a premium. As against this, an **entrepreneur is required to be innovative**, thus, **conformity and enterprise seldom go hand-in-hand**. **Enterprise needs the status quo to be investigated, challenged and if necessary changed**. The **dilemma for entrepreneurs lies in balancing the creative urge to 'improve' something with the natural human need for 'acceptance by others'**.

Most people do not like to be too unlike their peers. They are sensitive to the reaction of those around them. There is a latent desire to conform to an accepted pattern. Such desire and **cultural block prevent persons from setting up their own ventures in non-entrepreneurial societies**.



## Respect for Entrepreneurs

The **socio-cultural setting** of any society determines the degree of approval or disapproval of the entrepreneurial activities. Schumpeter calls it an appropriate social culture for entrepreneurship. The **social status of the entrepreneur in a society is an important factor that has a direct bearing on the emergence of entrepreneurs in a society.**

The societies which tend to view the entrepreneurs as role models and heroes, accord due status to the entrepreneurs, encourage their people to choose entrepreneurial careers. In most of the Indian societies, businessmen and entrepreneurs are not accorded a high status. Rather, business is considered a profession of lower hierarchy. This **lack of legitimacy to entrepreneurship and lower social status of entrepreneurs in a society is a major barrier to entrepreneurship.**



## Tradition Binding

Some people take pride in their traditional culture and preserve their dress, dance, architecture and traditional ceremonies. This provides emotional support to the individuals and shared interests and values to their society. Binding tradition represents a substantial block to change and progress. Social movements, attitudes, entertainment and dress styles are continuously changing.

Many people dislike such changes either because of fear or distrust or some unpleasant past experience. People prefer to live in the good old days. **Some cultures place a great deal of emphasis on the preservation of traditional ways of life at the expense of innovation and development. Such societies resist introduction of any change.** Thus, tradition-binding cultures are a barrier to entrepreneurship.



## Regulatory Barriers (Non-Economics Barriers )

The legal and regulatory environment for entrepreneurship is formed by **registration and licensing procedures, commercial and contractual laws, property rights laws, bankruptcy and collateral law, real estate regulations and labour laws.**

If the administrative procedures and laws are unclear, time-consuming and cumbersome, they would pose barriers to entrepreneurship. If these procedures and laws are changed/revised frequently, it would create a sense of uncertainty and risk in the minds of entrepreneurs trying to establish a new business venture in the region.

The government regulates entry to markets, defining registration requirements and reporting and disclosure norms and ensuring tax compliance.

Entrepreneurs are also expected to produce a business plan certified by technical consultancy organisations which attest to the enterprise's viability.



## Tax Structure

**Higher** levels of **tax** doses tend to **distort economic activity** and **reduce profit margin for entrepreneurs**. High tax doses lead to a sub-optimal use of resources and a less efficient and dynamic economy. They **reduce the returns** available to entrepreneurs and discourage them from further creation or expansion.

High marginal income and corporate tax rates penalise very successful entrepreneurs. They also **reduce firm's liquidity** by reducing their capacity to retain more profits for further investment. Similarly, they provide an incentive for tax avoidance and evasion, tending to expand undeclared economic activity.

The **relative tax structure on different forms of business organisations** can also discourage one form over the other.



### Delayed Payments

Delayed payments from big enterprises to small enterprises are the normal feature of small business. They became a problem because of their **vulnerability to cash flow constraints and because of their frequently weak bargaining position** with respect to purchases. The Government of India has already introduced a separate act “**Delayed Payment Act**” to protect the interest of small entrepreneurs.

Legislation can offer such measures as statutory rights of interest on late payments and the right to sue late paying firms.

### Absence of Protection of Intellectual Property Rights

Innovation is the basic root of entrepreneurship. Despite the potential benefits offered by research and development of new products and services, **firms are reluctant to invest in R & D** because the results of such spending on technological discoveries, new products and techniques, can **fall easily into the hands of rivals** due to the difficulty associated with attaching ownership rights to these results.

So, the Government should try to protect the innovative process developed by the entrepreneurs. It should also try to formulate a comprehensive “Intellectual Property Policy” to set an equilibrium between two objectives, first rewarding or compensating creators and inventors for innovation and second promoting the interests of business and the public at large in securing access to science, technology and culture.

This implies granting innovators the rights that are necessary to recoup their investment without stifling competition for an unduly long period of time.

### **Defective Administrative and Compliance System**

Government generally favours small entrepreneurs by granting them tax subsidies and tax incentives to achieve a wide range of economic and social objectives. These measures include tax benefits to promote employee training and R&D, special provisions to SSI's to help them to access financial support extended by financial institutions and special tax provisions to create export promotion zones etc.

**Tax subsidies and incentives require definitions of the eligible activities, accountability requirements and other administrative procedures** and these generate administrative expenses for government and compliance costs for business. The Indian bureaucratic system known for its red tapism also increases the delay in execution of compliance and its costs.



# Entrepreneurial Motivation

Since time immemorial what motivates an individual to be an entrepreneur has become a burning subject of study.

**Entrepreneurship is undeniably influenced by the psychological factor of motivation and mental-readiness.**

**Motivation**, for the behavioural psychologists Kreitner (1995) is a **psychological process that gives behaviour, purpose and direction to an individual.**

Ismail *et al.*, (2012) stated that it is the **motivation which directly gives rise to the entrepreneurial decisions.** Thereby it is imperative to identify the motivational factors that stimulate the personal entrepreneurial behaviour resulting in the formation of entrepreneurial motivation.

**Entrepreneurial motivations have myriad connotations** expressing the **desire to organize and master human beings and individuals, to being significant and positive with entrepreneurial career paths.**

Multiple models are used to explain entrepreneurial motivations and how they can be applied in predicting entrepreneurial behaviour.



**Economic-base** models suggest **higher propensity to undertake risk** is the pivotal stimuli in entrepreneurial motivation and self-employment.

**Cognitive** model advocates entrepreneurial motivation as the outcome of ‘**expectancy**’, ‘**instrumentality**’ and ‘**valency**’.

**Valence-** The **significance or value expected of an outcome**. Emotional orientations people hold with respect to outcomes [rewards]. The depth of the want of an employee for extrinsic [money, promotion, time-off, benefits] or intrinsic [satisfaction] rewards). Management must discover what employees value.

**Expectancy-** The belief that **increased efforts will lead to better performance**. Employees have different expectations and levels of confidence about what they are capable of doing. Management must discover what resources, training, or supervision employees need.





**Instrumentality**-The belief that **if better performance is achieved, it will result in a certain outcome**. The **perception** of employees as to whether they will actually get what they desire even if it has been promised by a manager. Management must ensure that promises of rewards are fulfilled and that employees are aware of that.

**Process** model view the **impact of increased rewards** in form of **higher wage/salary from entrepreneurial activity in contrast to wage/salary from the current occupation** as the prime motive of choosing entrepreneurship.

Entrepreneur's motivating factors as **“chance”**, **“forced”** and **“created”** or **“pull”**.

Some entrepreneurs are in business by chance and not because they are motivated to be an entrepreneur. People try to turn their hobbies into entrepreneurship or carry-out their family business. Here, chance motivation comprises of factors like ‘to be busy’, ‘family businesses’ and ‘was a hobby’.



**Force** factor implies that some are in business as they are **forced or obligated by circumstances** **necessity-driven entrepreneurs**. The **necessity** to be **financially independent facing a set-back** in the family like, death of the spouse or the bread earner or separation and divorce and consists of factors like ‘financial crisis’, the individual ‘had no other employment opportunities’, ‘show others I can do it’.

“**Created**” refers to the ones who are **actually motivated** or encouraged to be an entrepreneur and includes factors like ‘to be economically independent’, ‘self-satisfaction’, the individual had ‘undergone entrepreneurial trainings’ and ‘to try something new’.

Most entrepreneurs have a strong desire to be independent. Some, from an early age, seek autonomy. For others it’s because they find it unfulfilling to work on another person’s dreams and help them become rich. They may see limited opportunities for advancement or they may become bored with the same work every day. Ultimately, they want to be their own bosses and wealth creation may be part of the motivation. Entrepreneurs believe it is better to invest in themselves than to park their earnings in a low-interest savings account. Job satisfaction, achievement, opportunity and money are often thought to be primary motivations for people to launch their own venture. These are what we call **opportunity-driven entrepreneurs**.