

ENTREPRENEUR

Meaning of Entrepreneur

According to Peter Drucker,

- “An entrepreneur is one who always searches for changes, responds to it and exploits it as an opportunity.”
- “An entrepreneur in a given economy is an individual who introduces something new in the economy.”

- Joseph Schumpeter

- “An entrepreneur is an individual who bears the risk of operating a business in the face of uncertainty about the future condition.”

- Encyclopedia Britannica

- “Entrepreneurship is the process of creating something new and assuming the accompanying risks and rewards”.

- Robert Hirrich

Entrepreneurship is a behavior that includes,

- (i) Initiative taking
- (ii) Organizing of social and economic forces to convert resources and situations to practical good.
- (iii) The acceptance of risk or failure.

- R Hirrich

Some more important definitions of entrepreneur

1. According to F.A. Walker: “Entrepreneur is one who is endowed with more than average capacities in the task of organizing and coordinating the factors of production, i.e. land, labour capital and enterprises”.

2. Marx regarded entrepreneur as social parasite.

3. According to Gilbert: “An entrepreneur must accept the challenge and should be willing hard to achieve something”.

4. Peter F. Drucker defines an entrepreneur as one who always searches for change, responds to it and exploits it as an opportunity. Innovation is the basic tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or service.

5. International Labour Organization (ILO) defines entrepreneurs as those people who have the ability to see and evaluate business opportunities, together with the necessary resources to take advantage of them and to initiate appropriate action to ensure success.

Evolution of Concept of Entrepreneur

- The word ‘**Entrepreneur**’ is derived from French word ‘**Entreprendre**’ which was used to designate an organizer of musical or other entertainments.
- Later in 16th century it was used for army leaders. It was extended to cover civil engineering activities such as construction in 17th century.
- **Richard Cantillon**, an Irishman living in France who first used the term entrepreneur to refer to economic activities. According to Cantillon “An entrepreneur is a person who buys factor services at certain prices with a view to selling its product at uncertain prices”. Entrepreneur, according to Cantillon, an entrepreneur is a bearer of risk, which is non-insurable.
- **Schumpeter** gave a central position to the entrepreneur who believed that an entrepreneur was a dynamic agent of change; that an entrepreneur was a catalyst who transformed increasingly physical, natural and human resources into correspondingly production possibilities. Since then the term entrepreneur is used in various ways and various views.

Evolution of Entrepreneurship in India

Emergence of entrepreneurial class is as old as our ancient history itself. It dates back to the Pre-Vedic period when Harappan culture flourished in India.

History of entrepreneurship and emergence of entrepreneurial class in India may be presented in two sections.

1. Entrepreneurship during pre-independence
2. Post-independence.

Entrepreneurship during pre-independence:

- The craftsmen of the time of Harappan and Mohanjodaro made, handicraft items as part of their contribution to the society in which they lived.
- The entrepreneurship to make handicraft items existed in India around 2500 B.C. People developed their own social system and village economy in India. India also developed cast-based divisions of work, which helped in the development of skills of artisans.
- The cities like Banaras, Gaya, Puri, Allahabad and Mirzapur, which were on the banks of Ganga River, established their own type of handicrafts work.
- The development of agriculture products like spices, Ayurvedic medicines also flourished. Spices from Kerala, Corah from Bengal, Shawls from Kashmir and Banaras, brass and Bidriware, Silk from Nagpur and Mysore enjoyed prestigious status in international market till earlier years of 18th century.
- The craftsmen gathered together in halls, which were called ‘Karkhanas’. Unfortunately the prestigious Indian handicrafts industries which were basically a cottage and tiny sector declined at the end of 18th century, because of the following reasons.
 1. Disappearance of royal patronage to the handicrafts
 2. Lukewarm attitude of British colonial towards Indian crafts
 3. Imposition of heavy duty on imports of Indian crafts
 4. Low priced British made goods
 5. Changes in the tastes and habits of developing Indian citizens etc.

In other words East India Company handicapped Indian cottage and tiny sectors. The company injected various changes in the Indian economy by exporting raw materials and import of finished goods in India.

‘Parsis’ established good report with company. The company established the first shipbuilding industry in Surath and from 1673 Parsis started manufacturing vessels for the company.

In 1677 Manjee Dhanjee was given the contract of building large gun-powder-mill in Bombay. In 1852 a Parsi foreman who was working in the gun factory started steel industry in Bombay. That entrepreneurship and emergence of entrepreneurial class in India may be presented in two sections viz. entrepreneurship during pre-independence and post-independence.

Entrepreneurship during post-independence:

In 1948 Indian government came forward with the first Industrial policy, which was revised from time to time. The government identified the responsibility of the state to promote, assist and develop industries in the national interest and recognized the role of private sector in accelerating industrial development.

The government took three important measures namely:

1. To maintain a proper distribution of economic power between private and public sector.
2. To encourage industrialization from existing centers to other cities, towns and villages.
3. To disseminate the entrepreneurship acumen concentrated in a few dominant communities to a large number of industrially potential people of varied social state.

Entrepreneurship in India- In Brief

Past: Business community was involved in trade & commerce and presently known as ‘Vasiyas’ or ‘Banias’.

1. Manufacture & supply of a product was based on demand.
2. All members of the family were involved in business from planning to manufacture stage.
3. Industrial activity based on caste system.
4. Skills of enterprise inherited from ancestors.

Present: Tremendous growth in 50-60 years in all sectors before 1940’s –Business dominated by British, except Tata steel, Birla group & Wadias, etc.

Concept of Entrepreneurship

Entrepreneur is used in various ways and various views. These views are broadly classified into three groups, namely risk bearer, organizer and innovator

i) Entrepreneur as risk bearer:

Richard Cantilon defined entrepreneur as an agent who buys factors as production at certain prices in order to combine them into a product with a view to selling it at uncertain prices in future. He illustrated a former who pays contractual incomes, which are certain to land owners and laborers, and sells at prices that are ‘uncertain’. He includes merchants also who make certain payments in expectation of uncertain receipts. Hence both of them are risk-bearing agents of production.

P.H. Knight described entrepreneur to be a specialized group of persons who bear uncertainty. Uncertainty is defined as risk, which cannot be insured against and is incalculable.

He made distinction between certainty and risk. A risk can be reduced through the insurance principle, where the distribution of outcome in a group of instance is known, whereas uncertainty cannot be calculated.

ii) Entrepreneur as an organizer:

According to **J Baptist** “An Entrepreneur is one who combines the land of one, the labor of another and capital of yet another, and thus produces a product. By selling the product in the market, he pays interest on capital, rent on land and wages to laborers and what remains is his/her profit”. Say made distinction between the role of capitalist as a financier and the entrepreneur as an organizer. This concept of entrepreneur is associated with the functions of coordination, organisation and supervision.

iii) Entrepreneur as an innovator: Joseph A Schumpeter in 1934 assigned a crucial role of ‘innovation’ to the entrepreneur. He considered economic development as a dynamic change brought by entrepreneur by instituting new combinations of factors of production, i.e. innovations. The introduction of new combination according to him, may occur in any of the following forms.

- (a) Introduction of new product in the market.
- (b) Use of new method of production, which is not yet tested.
- (c) Opening of new market.
- (d) Discovery of new source of raw materials.
- (e) Bringing out of new form of organisation.

Schumpeter also made distinction between inventor and innovator. An inventor is one who discovers new methods and new materials. An innovator utilizes inventions and discovers in order to make new combinations.

Hence the concept of entrepreneur is associated with three elements risk bearing, organizing and innovating. Hence **an entrepreneur can be defined as a person who tries to create something new, organizes production and undertakes risks and handles economic uncertainty involved in enterprise.**

Characteristics of Entrepreneur

Entrepreneur is a person of telescopic faculty drive and talent who perceives business opportunities and promptly seizes them for exploitation. Entrepreneur needs to possess competencies to perform entrepreneur activities. Table 5.1 gives core competencies.

Table 5.1: Entrepreneurial characteristics

| | Core competencies | Entrepreneurial activities |
|---|--------------------------|--|
| 1 | Initiative | Does things before asked for or forced to by events and acts to extend the business to new areas, products or services. |
| 2 | Perceiving opportunities | Identifies business opportunities and mobilizes necessary resources to make good an opportunity. |
| 3 | Persistence | Takes repeated or different actions to overcome obstacles. |
| 4 | Information gathering | Consults experts for business and technical advice. Seeks information of client or supplier’s needs. Personally undertakes market research and make use of personal contacts or information networks to obtain useful information. |

| | | |
|----|---------------------------|---|
| 5 | Concern for quality Work | States desire to produce or sell a better quality product or service. Compares his performance favorably with that of others. |
| 6 | Efficiency orientation | Finds ways and means to do things faster, better and economically. |
| 7 | Problem solving | Conceives new ideas and finds innovative solutions. |
| 8 | Self-confidence | Makes decisions on his own and sticks to it in spite of initial setbacks. |
| 9 | Experience | Possesses technical expertise in areas of business, finance, marketing, etc. |
| 10 | Persuasion | Persuades customers and financiers to patronize his business. |
| 11 | Assertiveness | Instructs, reprimands or disciplines for failing to perform. |
| 12 | Monitoring | Develops a reporting system to ensure that work is completed and quality norms. |
| 13 | Impersonal relationship | Places long-term goodwill over short-term gain in a business relationship. |
| 14 | Self-critical | Aware of personal limitations but tries to improve upon by learning from his past mistakes or experiences of others and is never complacent with success. |
| 15 | Expansion of capital base | Reinvests a greater portion of profits to expand capital of the firm. |

Types of Entrepreneurs

(a) According to type of business

Business entrepreneur, trading, industrial, corporate, agricultural, retail, & service entrepreneur.

(b) According to use of technology

1. Technical (craftsman) and non-technical (marketing & distribution)
2. Professional (only business & not with management and organizing)
3. Low tech or high tech

(c) According to Motivation

1. Pure entrepreneur- Motivated by psychological and not by economic rewards.
2. Induced Entrepreneur- by assistance and incentives.
3. Motivated entrepreneur- Desire for fulfillment
4. Spontaneous Entrepreneur- Natural talents

(d) According to growth

1. Growth Entrepreneur
2. Super-growth entrepreneur

(e) According to stages of development

1. First generation- by his own
2. Modern generation- By changing demands
3. Classical- Concerned with the customers & marketing needs.

(f) According to area

1. Urban
2. Rural

(g) According to age & gender

1. Young
2. Old
3. Male
4. Female

(h) According to Scale of operation

1. Small scale
2. Large scale
3. Medium scale

(i) Other types

Modern Entrepreneur, Inherited Entrepreneur National or international Entrepreneur, forced Entrepreneur, etc.

Distinction between Entrepreneur and Manager

Often the two terms namely entrepreneur and manager are considered as synonym. However the two give different meaning. The major points of distinction between the two are presented in table 5.2.

Table 5.2: Distinction between entrepreneur and manager

| | Entrepreneur | Manager |
|------------------|---|---|
| 1. Motive | The main motive of an entrepreneur is to start a venture for his personal gratification. | Main motive of a manager is to render services in an enterprise already set by someone else. |
| 2. Status | Owner | Servant |
| 3. Risk | Assumes risk and uncertainty | Manager does not bear any risk involved in enterprise. |
| 4. Rewards | Profits, which are highly uncertain and not fixed. | Salary which is certain and fixed |
| 5. Innovation | Entrepreneur himself thinks over what and how to produce goods to meet the changing needs of the customers. Hence he acts as innovator / change agent. | A manager simply executes plans prepared by the entrepreneur. |
| 6. Qualification | An entrepreneur needs to possess qualities and qualifications like high achievement motive, originality in thinking, foresight, risk bearing ability etc. | A manager needs to possess distinct qualifications in terms of sound knowledge in management theory and practice. |

Rewards for an Entrepreneur

1. Freedom to work.
2. Satisfaction of being own boss.
3. Power to do things as he likes.
4. Rewards of ownership and retirement assurance.
5. Respect of family and friends.

Penalties for an Entrepreneur

1. Constraints of financiers, laborers, customers, suppliers, and debtors curtail his freedom.

2. Frustration due to availability of limited capital and other resources.
3. Social and family life is affected due to hard long hours of working.
4. Frustration due to non-achievement of full objectives.
5. Risk of failure.

Functions of an Entrepreneur

An Entrepreneur has to perform a number of functions right from the generation of idea up to the establishment of an enterprise. He also has to perform functions for successful running of his enterprise. Entrepreneur has to perceive business opportunities and mobilize resources like man, money, machines, materials and methods. The following are the main functions of an Entrepreneur.

1. Idea generation: The first and the most important function of an Entrepreneur is idea generation. Idea generation implies product selection and project identification. Idea generation is possible through vision, insight, keen observation, education, experience and exposure. This needs scanning of business environment and market survey.

2. Determination of business objectives: Entrepreneur has to state and lay down the business objectives. Objectives should be spelt out in clear terms. The Entrepreneur must be clear about the nature and type of business, i.e. whether manufacturing concern or service oriented unit or a trading business so that he can very well carry on the venture in accordance with the objectives determined by him.

3. Rising of funds: All the activities of the business depend upon the finance and hence fund rising is an important function of an Entrepreneur. An Entrepreneur can raise the fund from internal source as well as external source. He should be aware of different sources of funds. He should also have complete knowledge of government sponsored schemes such as PMRY, SASY, REAP etc. in which he can get government assistance in the form of seed capital, fixed and working capital for his business.

4. Procurement of machines and materials: Another important function of an Entrepreneur is to procure raw materials and machines. Entrepreneur has to identify cheap and regular sources of raw materials which will help him to reduce the cost of production and face competition boldly. While procuring machineries he should specify the technical details and the capacity. He should consider the warranty, after sales service facilities, etc. before procuring machineries.

5. Market research: Market research is the systematic collection of data regarding the product which the Entrepreneur wants to manufacture. Entrepreneur has to undertake market research persistently to know the details of the intending product, i.e. the demand for the product, size of the market/customers, the supply of the product, competition, the price of the product etc.

6. Determining form of enterprise: Entrepreneur has to determine form of enterprise depending upon the nature of the product, volume of investment etc. The forms of ownership are sole proprietorship, partnership, Joint Stock Company, co-operative society etc. Determination of ownership right is essential on the part of the entrepreneur to acquire legal title to assets.

7. Recruitment of manpower: To carry out this function an Entrepreneur has to perform the following activities.

- (a) Estimating man power requirement for short term and long term.

- (b) Laying down the selection procedure.
- (c) Designing scheme of compensation.
- (d) Laying down the service rules.
- (e) Designing mechanism for training and development.

8. Implementation of the project: Entrepreneur has to develop schedule and action plan for the implementation of the project. The project must be implemented in a time bound manner. All the activities from the conception stage to the commissioning stage are to be accomplished by him in accordance with the implementation schedule to avoid cost and time overrun. He has to organize various resources and coordinate various activities. This implementation of the project is an important function of the Entrepreneur.

All the above functions of the Entrepreneur can precisely be put into three categories of innovation, risk bearing, and organizing and managing functions.

Intrapreneurs

A new breed of entrepreneurs is coming to the fore in large industrial organizations. They are called as 'Intrapreneurs'. In large organizations, the top executives are encouraged to catch hold of new ideas and then convert them into products through R and D activities within the framework of organizations. It is found in developed countries that such Intrapreneurs in large number are leaving the organization and started their own enterprises. Many of such Intrapreneurs have become exceedingly successful in their ventures.

Elements of Intrapreneurship:

4 Important elements are:

1. New business venturing:

Creating new business within the organization, redefining the company's product and services, Development of new marketing segments, etc.

2. Innovations:

Development of new products, Improvement of existing products, improved and simplified production methods.

3. Self-renewals:

Transformation of organization through the renewal of main ideas. Includes redefinition of business concept, reorganization or modifications.

4. Pro-activeness

Includes initiative & risk taking, Competitiveness & dashing to take new challenges.

STAGES IN THE ENTREPRENEURIAL PROCESS

1) Identification of opportunity:

Idea may be his own, from external source like consumers and business associate, consultants etc. or R & D centers (technical).

2) Evaluation of the opportunity

It is the most elements because it allows the entrepreneur to assess whether the specific product or service will provide sufficient return on investment. It involves looking at real & perceived values, risks & returns, personal goals and uniqueness.

3) Development of a business plan

To achieve the proposed business opportunity and business plan. This is a tedious and time consuming activity.

4) Determination & organizing the resources.

Assessing the resources needed starts with an appraisal of the entrepreneur's present resources. The entrepreneur should also assess the downside risks associated with insufficient or inappropriate resources. The next step in the entrepreneurial process is acquiring the needed resources in a timely manner while giving up as little control as possible. By understanding resource supplier needs, the entrepreneur can structure a deal that enables the resources to be acquired at the lowest possible cost and with the least loss of control

5) Management of Enterprise.

After resources are acquired, the entrepreneur must use them to implement the business plan. The operational problems of the growing enterprise must also be examined. This involves implementing a management style and structure, as well as determining the key variables for success. A control system must be established, so that any problem areas can be quickly identified and resolved. Some entrepreneurs have difficulty managing and growing the venture they created.

The difference between entrepreneur and Intrapreneur is given in table

| | Entrepreneurs | Intrapreneurs |
|---------------------|--|--|
| 1. Dependency | He is independent in his operation. | He is dependent on the entrepreneurs i.e. owner. |
| 2. Raising of funds | He himself raises funds required for the organization. | He does not raise funds for the organization. |
| 3. Risk | Entrepreneurs bears the risk involved in the business. | He does not fully bear the risk involved in the organization. |
| 4. Operation | An entrepreneur operates from outside. Entrepreneurs converts the ideas into viable opportunities. Entrepreneurs takes the profit of the business. | An intrapreneur operates from inside. Intrapreneurs takes the responsibility of creating innovation. He is provided with a variety of perquisite for his innovation. |

Role of Entrepreneurship in Economic Development

Economic development essentially means a process of upward change whereby the real per capita income of a country increases for a long period of time. The crucial role played by the entrepreneurs in the western countries has made the people of underdeveloped countries conscious of the significance of entrepreneurship in economic development. After the Independence, India has realized that, for achieving the goal of economic development, it is necessary to increase the entrepreneurship both qualitatively and quantitatively in the country. Parson and Smelter described entrepreneurship as one of the two necessary conditions for economic development, the other being increased output of capital. Entrepreneurship is a necessary dynamic force for economic development.

The important role that an entrepreneurship plays in the economic development of an economy can be put in a more systematic manner as follows.

1. Entrepreneurship promotes capital formation by mobilizing the idle saving of the public.
2. It provides immediate large-scale employment. Thus it helps to reduce unemployment in the country.
3. It provides balanced regional development.
4. It helps reduce the concentration of economic power.
5. It stimulates the equitable redistribution of wealth, income and even political power in the interest of the country.
6. It encourages effective resources mobilization of capital and skill which might otherwise remain unutilized and idle.
7. It also induces backward and forward linkages which stimulated the process of economic development in the country.
8. It promotes country's export trade i.e. an important ingredient for economic development.

Women Entrepreneurs

Concept of women Entrepreneurs

“Minimum financial participation of 51% of capital & giving at least 51% of employment generated to women”.

Functions of a women Entrepreneurs

1. Exploration of the prospects of starting a new business.
2. Pool up the resources.
3. Establish the industrial enterprise.

4. Manage the business.
5. Development of strategies.
6. To assume risk and uncertainty.
7. To develop business & business decision.
8. Motivation.
9. Supervision and leadership.

Problems of Women Entrepreneurs

1. Problem of finance
2. Lack of education.
3. Limited mobility.
4. Family ties.
5. Scarcity of raw materials.
6. Stiff competition.
7. Low risk-bearing capacity.
8. Social problems.
9. Male domination.

Barriers to Entrepreneurship

A large number of entrepreneurs particularly in the small enterprises fail due to several problems and barriers. The greatest barrier to entrepreneurship is the failure of success. Karl. H. Vesper has identified the following entrepreneurship barriers:

1. Lack of a viable concept.
2. Lack of market knowledge.
3. Lack of technical skills.
4. Lack of seed capital.
5. Lack of business know how.
6. Complacency—lack of motivation.
7. Social stigma.
8. Time presence and distractions.
9. Legal constraints and regulations.
10. Monopoly and protectionism.
11. Inhibitions due to patents.