

Concepts of Entrepreneurship



ENTREPRENEUR:

“A crazy person who risks their own money for freedom, rather than exchanging their freedom for money”

THE RICHES OF SUCCESS

Enterprise

- is an already formed business organization that propose some goods or services, etc.

Entrepreneur

- is a person who establishes and manages the enterprise. He/she is often the founder and owner of the business.

Entrepreneurship

- is the process of establishing new business enterprise along with the capacity to identify the opportunities and threats and to undertake all the risks to gain profits in results.

CONCEPT

- It was the beginning of 18th Century when the word was used to refer to economic aspect
- **Richard Cantillon** is the first one who introduced the term Entrepreneur with some economical aspect
- **According to him** - “Entrepreneur as an agent who buy factors of production at certain price in order to combine them to produce product with a view to selling it in uncertain price in the future” (FARMER)
- According to Knight - “Entrepreneur is the economic functionary who undertakes such responsibility of uncertainty which is not insured nor capitalized nor salaried”

THE CONCEPT OF ENTREPRENEUR

– According to New Encyclopedia Britannica

“An entrepreneur is an individual who bear the risk of operating business in face of uncertainty about future condition”

– According to Peter Drucker

“An entrepreneur is one who always searches for change, respond to it and exploit it as an opportunity. Innovation is a specific tools of an entrepreneur by which they can exploit change as an opportunity for different business and service”

DEFINITION

An individual who bears the risk of operating a business in the face of uncertainty about the future conditions.

**Encyclopedia
Britannica**

He is the one who innovates, and introduces something new in the economy.

**Joseph A.
Schumpeter**

He shifts economic resources out of an area of lower and into an area of higher productivity and greater yield.

**J. B. Say (French
economist)**

He searches for change, responds to it and exploits opportunities.
Innovation is the specific tool of an entrepreneur.

Peter F. Drucker

He is the one who is endowed with more than average capacities in the task of organizing and coordinating the various factors of production.
He is a pioneer and captain of industry.

Francis A. Walker

He is a critical factor in economic development and an integral part of economic transformation.

William Diamond

He is a person who is able to look at the environment, identify opportunities to improve the environment, marshal resources, and implement action to maximize those opportunities.

Robert E. Nelson

Why Should You Become an
Entrepreneur?

- You will be your **own boss** and boss to other people and make decisions that are crucial to the business' success or failure.
- You will have the chance to **put your ideas into practice**.
- You will **make money** for yourself rather than for someone else.
- You may **participate in every aspect** of running a business and learn and gain experience in a variety of disciplines.
- You will have the **chance to work directly** with your customers.
- You will have the **personal satisfaction** of creating and running a successful business.
- You will be able to **work in a field or area** that you really enjoy.
- You will have the **chance to build retirement value** (for example, by selling the business when you retire).

Scope of Entrepreneurship

1. Contribution to GDP, GNP and Per Capita Income:

- Entrepreneurship contributes **to economic stability** by introducing new products
- services in the market and encouraging effective **resource mobilization**.
- This helps **in increasing the gross national product** as well as per capita income of the people in the country.
- Economic stability leads to increased institutional investment for productive activities and is a **sign of economic growth**.

2. Employment generation:

- Entrepreneurs are **not only self-employed but also provide employment to others**.
- For example, when the information technology boom occurred in India, it led to several successful entrepreneurial ventures. This provided employment to many and also led to the launch of a number of engineering colleges, development of real-estate and hospitality ventures, and infrastructural facilities.

3. Balanced regional development:

- The development of enterprises in **less-developed regions promotes** balanced regional development in the country.
- Entrepreneurship stimulates the **distribution of wealth and income to more and more individuals** (such as stakeholders) and geographical areas, thus benefiting larger sections of society.

4. Promotion of export and trade:

- Entrepreneurship promotes the country's **export trade and earns foreign exchange**.
- This earning can help combat the country's import dues requirements. **International trade brings economic strength and techno-economic reliance**.

5. Improvement in the standard of living:

- Entrepreneurs bring a wide **variety of products and services** into the market.
- This increases competition in the market and makes it possible for people to avail of a **better quality of products and services at lower and more competitive prices**, resulting in an improvement of the country's overall standard of living.

6. Increased innovation:

- With the liberalization of the Indian economy, the **increased competition in the domestic and international market** has encouraged entrepreneurs to be more creative.

7. Overall development of the economy:

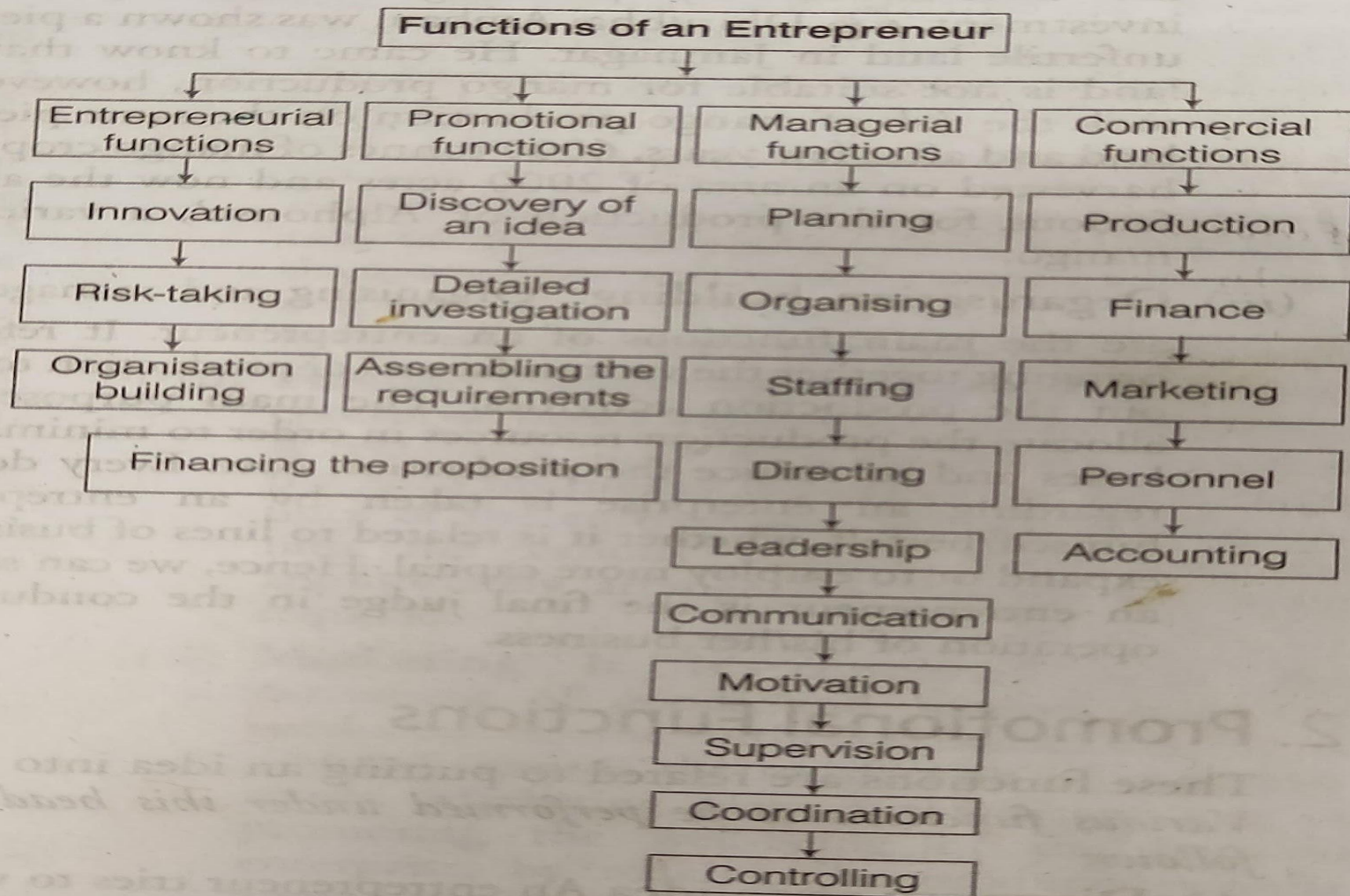
- Entrepreneurs create **new technologies, products, processes, and services that become the next wave of new industries**, and these in turn drive the economy. Entrepreneurs are change agents in society. They create wealth and value, and generate employment in society. This naturally leads to social and economic growth.

Characteristics of an Entrepreneur

- Mental ability
- Clear objective
- Business secrecy
- Human relation ability
- Communication ability
- Technical knowledge
- Motivator
- Self-confidence
- Long –term involvement
- High Energy level
- Persistent Problem Solver
- Initiative
- Moderate risk-taker

Functions of an Entrepreneur

Rajesh Marwaha and JS Mehandipur, in their book *Entrepreneurship and Small Business* have defined the following functions of an entrepreneur:



Models of Entrepreneurship Development

- Psychological Model
 - David McClelland's theory
 - *Hagen's Theory of Withdrawal of Status Respect (1964)*
 - *Rotter- Internal–External Locus of Control Theory*
- Sociological Model
 - *Max Weber's Theory of Religious Beliefs*
 - *Hozelist's Sociocultural Theory*
 - *Thomas Cochran's Theory of Entrepreneurial Supply*
 - *Frank W. Young's Theory of Group Level Pattern*
- Integrated Model

1. Psychological Models

- The essence of psychological theory is an understanding the differences in individuals' attitudes.
- According to this theory, the internal attitude and ability to judge and forecast any situation lead a person to become a successful entrepreneur.

David McClelland's theory of Achievement motivation

- In his theory, McClelland considers entrepreneurs as people who do things in a better way and make decisions in times of uncertainty.
- Motivation is an important determinant for entrepreneurial growth.
- Three motives for accomplishing things:
 - **Need for Power (nP)**, or the drive to influence others and any given situation.
 - **Need for Affiliation (nAff)**, or the drive for interpersonal relationship.
 - **Need for Achievement (nAch)**, or the drive to excel, advance, and grow.
- All of these needs may simultaneously act on an individuals.

Hagen's Theory of Withdrawal of Status

Respect (1964)

- **Everett Hagen's** concept of the entrepreneur is that of a “**creative personality**” interested in accelerating change and driven by a motivation to achieve.
- According to Hagen, entrepreneurial growth has been very **gradual and may or may not even occur in the same generation**. In his theory of withdrawal of status respect,
- Everett Hagen's argument is that **certain social changes may disrupt the stability of traditional society** and cause psychological changes in a group or in an individual.

Rotter- Internal–External Locus of Control Theory

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

Sociological Model

- *Max Weber's Theory of Religious Beliefs*
- *Hozelist's Sociocultural Theory*
- *Thomas Cochran's Theory of Entrepreneurial Supply*
- *Frank W. Young's Theory of Group Level Pattern*

2. Sociological Model

- Social cultures to be the driving force behind entrepreneurship.
- The entrepreneur becomes a role performer in conformity with the role expectations of society.
- Such role expectations are based on religious beliefs, taboos, and customs.

Max Weber's Theory of Religious Beliefs

- According to Max Weber, religious beliefs are the driving or restraining forces for entrepreneurial activity.
- **Religious beliefs** play a crucial role in determining the attitude of the entrepreneur towards generating or limiting profits.
- Weber took the position that entrepreneurial **growth is dependent upon the ethical values** (due to religion) of society.
- **Capitalism thrives** under the Protestant work ethic that **advocates hard work, honesty, and discipline**. The **spirit of capitalism, coupled with the motive of profit**, results in the creation of a large number of successful business enterprises.
- Weber distinguished between the “spirit of capitalism” and the “adventurous spirit.” The spirit of capitalism is influenced by a strict discipline, whereas the adventurous spirit comes from the free force of impulse.
- Right combination of discipline and impulse defines the

Hozelist's Sociocultural Theory

- According to Hozelist, a specific social culture leads to growth in entrepreneurship.
- Social sanctions, cultural values, and role expectations are responsible for the emergence of entrepreneurship.
- Entrepreneurship grows in societies that permit variability in choice of paths of life and non-standard socialization of individuals.

Thomas Cochran's Theory of Entrepreneurial Supply

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

Frank W. Young's Theory of Group

Level Pattern

- **This is one of change** based upon society's incorporation of relative sub-groups within society.
- Group can be reactive in two ways: if the group experiences low status recognition and denial of access to important social networks, other with the greater access.
- A group without anything will compete with other groups and also try to acquire societal recognition.
- Low status group will lead to entrepreneurial behaviour if the group has better institutional resources than others in that society level.
- Young's model of entrepreneurship suggests **the creation of supporting institutions in society**, such as the family, as the determinant of entrepreneurship.

3. Integrated Model

- In search of an integrated approach, the behaviorists tried to synthesize psychology and sociology to explain entrepreneurship.
- **According to T.V. Rao**, the optimal presence of the following factors, leads to the initiation of entrepreneurship.
 1. Need for motive
 2. Long term involvement in thought and action to achieve the goal in entrepreneurial activity.
 3. Personal, social and material resources favorable to entrepreneurial activity.
 4. Suitable sociopolitical System for the establishment, development, and expansion of an enterprise.

INTRODUCTION TO ENTREPRENEUR AND PROFESSIONAL MANAGERS

TABLE 5.1: SIMILARITIES BETWEEN MANAGERS AND ENTREPRENEURS

<i>Areas of Similarity</i>	<i>Differing Focus</i>	
	<i>Managers</i>	<i>Entrepreneurs</i>
To produce results	Results of today, this month, this year. Short-term and medium-term.	Results of tomorrow, next year and coming five years. Long-term and very long-term.
To produce results through people	Have usually to handle people oriented to day-to-day management nitty-gritty and nuts and bolts type — Men of details.	Have to deal with people who can conceptualise with aggregate perspectives. — Strategists
To take decisions	Operational and administrative decisions, which have a bearing on short-term and medium-term results.	Mostly strategic decisions, involving growth through expansion, diversification, take-overs and mergers.
To co-operate under constraints	The constraints are usually organisational, i.e., those within an organisation like machine capacity, labour productivity, routing and scheduling, information availability, financial limitations etc.	The constraints are usually environmental which lie outside an organisation like the policy of financial institutions, import policy, licensing policy, infrastructural constraints etc.
To follow sound principles of management	The principles are more oriented towards internal administration and control like delegation, accountability, responsibility, planning, budgeting, reporting and information system.	The principles are with reference to macro-social aspects like social responsibility, equal opportunity, employment, ethical advertisement practices, adherence to government policies, etc.

TABLE 5.4 : DISTINCTIVE FEATURES OF TRADITIONAL MANAGER AND THE ENTREPRENEUR

	<i>Manager</i>	<i>Entrepreneur</i>
<i>Primary Motives</i>	Wants promotion and traditional corporate rewards. Power-motivated.	Wants freedom, goal-oriented, self-reliant, and self-motivated.
<i>Time Orientation</i>	Respond to quotas and Budgets, weekly, monthly, quarterly, annual planning horizons, the next promotion or transfer.	End goals of 5-10-year growth of business in view as guides. Takes action now to move the next step a long way.
<i>Action</i>	Delegate action. Supervising and reporting take most of energy.	Gets hands dirty. May upset employees by suddenly doing their work.
<i>Skills</i>	Professional training. Often business-school trained. Abstract analytical tools, people-management, and political skills.	Knows business intimately. More business acumen than managerial or political skill. Often technically trained if in technical business. May have former P&L responsibility in corporation.
<i>Courage and Destiny</i>	Sees others in charge of his or her destiny. Can be forceful and ambitious, but may be fearful of others' ability in case of optimism.	Self-confident, optimistic, courageous.
<i>Attention</i>	Primarily on events inside corporation.	Primarily on technology and marketplace.
<i>Risk</i>	Careful	Like moderate risk. Invests heavily, but expects to succeed.
<i>Market Research</i>	Has market studies done to discover needs and guide product conceptualisation.	Creates needs. Creates products that often can't be tested with market research — potential customers don't yet understand them. Talks to customers and forms own opinions.
<i>Status</i>	Cares about status symbols (corner office, etc.)	Happy sitting on an orange crate if job is getting done.
<i>Failure and</i>	Strives to avoid mistakes and surprises. Postpones	Deals with mistakes and failures

<i>Decisions</i>	Agrees with those in power. Delays decision until he gets a feel of what bosses want.	Follows private vision. Decisive and action-oriented.
<i>Who they Serve</i>	Please others.	Pleases self and customers.
<i>Attitude Toward the system</i>	Sees system as nurturing and protective, seeks position within it.	May rapidly advance in a system, when frustrated, reject the system and form his or her own.
<i>Problem-solving Style</i>	Works out problems within the system.	Escapes problems in large and formal structures by leaving and starting over his own.
<i>Family History</i>	Family members worked for large organisations.	Entrepreneurial small-business, professional, or agricultural background.
<i>Relationship with Parents</i>	Independent of mother, good relations with father, but slightly dependent.	Absent father or poor relations with father.
<i>Socio-economic Background</i>	Middle-class background.	Lower-class background in some early studies, middle-class in more recent ones.
<i>Educational Level</i>	Highly educated.	Less well educated in earlier studies, some graduate work but not Ph.D. in later ones.
<i>Relationship with Others</i>	Hierarchy as basic relationship.	Transactions and deal making as basic relationship.

CLASSIFICATION OF ENTREPRENEURS

According to Type of Business

Business entrepreneur

- ❑ Conceive an idea and materialise their idea into reality.
- ❑ Tap both production and marketing resources
- ❑ E.g. printing press, textile processing house, advertising agency, readymade garments or confectionery.

Trading entrepreneur

- ❑ Undertakes trading activities and is not concerned with the manufacturing work.
- ❑ Identifies potential markets, stimulates demand for his product line and creates a desire and interest among buyers to go in for his product.

Industrial entrepreneur

- ❑ Identifies the potential needs of customers and tailors products or services to meet the marketing needs.
- ❑ Product oriented man who starts in an industrial unit because of the possibility of making some new product.

Corporate entrepreneur (Intrapreneur)

- ❑ Demonstrates innovative skill in organising and managing a corporate undertaking.

Agricultural entrepreneur

- ❑ Motivated to raise the productivity of agriculture through mechanisation, irrigation and application of technologies for dry land agriculture.

According to Use of Technology

1. Technical entrepreneur

- ❑ Develops new and improved quality of goods because of his craftsmanship.
- ❑ Concentrates more on production rather than marketing.
- ❑ Does not apply various sales promotional techniques.
- ❑ Demonstrates his innovative capabilities in matters of production of goods and rendering services.

2. Non-technical entrepreneur

- ❑ Not concerned with the technical aspects of the product in which they deal.
- ❑ They are concerned only with developing alternative marketing and distribution strategies to promote their business.

3. Professional entrepreneur

- ❑ Does not have interest in managing or operating it once venture is established.
- ❑ sells out the running business and starts another venture with the sales proceeds.
- ❑ Dynamic and conceives new ideas to develop alternative projects.

According to motivation

1. Pure entrepreneur

- ☐ Motivated by psychological and economical rewards.
- ☐ undertakes an entrepreneurial activity for his personal satisfaction in work, ego or status.

2. Induced entrepreneur

- ☐ Induced to take up an entrepreneurial task due to the policy measures of the government that provides assistance, incentives, concessions and necessary overhead facilities to start a venture.
- ☐ Enter into business due to financial, technical and several other facilities provided to them by the state agencies to promote entrepreneurship

3. Motivated entrepreneur

- ☐ Desire for self-fulfilment.
- ☐ Come into being because of the possibility of making and marketing some new products for the use of consumers.
- ☐ If developed to a saleable stage, further motivated by reward in terms of profit.

4. Spontaneous entrepreneur

- ☐ Start their business out of their natural talents.
- ☐ Initiative, boldness and confidence in their ability motivate them to undertake entrepreneurial activity.
- ☐ Strong conviction and confidence in their ability.

According to growth

1. Growth entrepreneur

- Takes up a high growth industry and chooses an industry which has sustained growth prospects.

2. Super-growth entrepreneur

- Have shown enormous growth of performance in their venture.
- The growth performance is identified by the liquidity of funds, profitability and gearing.

According to Stages of Development

1. First-generation entrepreneur

- Starts an industrial unit by means of an innovative skill.
- Innovator, combining different technologies to produce a marketable product or service.

2. Modern entrepreneur

- Undertakes those ventures which go well along with the changing demand in the market which suit the current marketing needs.

3. Classical entrepreneur

- Concerned with the customers and marketing needs through the development of self-supporting ventures.
- Stereotype entrepreneur whose aims to maximise his economic returns at a level consistent with the survival of the firm with or without an element of growth.

According to Functional Characteristics by Clarence Danhof

1. **Innovative entrepreneur**

- Entrepreneurs introduce new goods or new methods of production or discover new markets or reorganize their enterprises.

2. **Imitative or adoptive entrepreneur**

- Entrepreneurs do not innovate themselves, but imitate techniques and technology innovated by others.
- Suitable for underdeveloped economies as adoption saves costs of trial and error.

3. **Fabian entrepreneur**

- Entrepreneurs display great caution and skepticism (doubt) in experimenting with any change in their enterprise. They change only when there is an imminent threat to the very existence of their enterprise.

4. **Drone entrepreneur:**

- Entrepreneurs are characterized by a die-hard conservatism and may even be prepared to suffer the loss of business. Aka 'Laggards'