**ENT 202**

**COURSE TITLE: BASIC PRINCIPLES OF ENTREPRENEURSHIP**

**LECTURE: DEFINITION OF ENTREPRENEURSHIP AND TURNING KNOWLEDGE INTO PROFIT (ENTERPRISE, ENTREPRENEUR, INTRAPRENEUR, ENTREPRENEURSHIP THEORY & PRACTICE)**

**OUTLINE**

**Definition of a business**

**Enterprise**

**Entrepreneur**

**Intrepreneur**

**Entrepreneurship**

**Entrepreneurship theory and practice**

The aim of this lesson note one is to explain the above outline.

Objectives

On the completion of this this lesson note one, students will understand the difference among the following enterprise, entrepreneur, intrapreneur, entrepreneurship and entrepreneurship theory and practice. This will help the students in the following ways:

* To understand what constitute business activity
* To be familiar with the concept of entrepreneurship
* To understand entrepreneurship as a multifaceted discipline.
* To examine the interlinkages operating among the disciplines and their various contributions
* To identify various disciplines that has contributed to the development of entrepreneurship.
* To provide entrepreneurial services, e.g. a doctor treats a patient
* To enhance human life or living, e.g. a surveyor helps to plan a city

**What is a business?**

A business is any activity that is involved in developing, producing and distributing of goods and service in return for a profit. A business can also be referred to as the activity of making, buying, selling or supplying goods and services for money.

**Reasons for business**

1. Profit making
2. Wealth creation
3. Provision of services
4. Employment generation

**What is an enterprise?**

Enterprise can be defined as initiative, or purposeful broad plans requiring many coordinates; or in business or financial applications as the overall operating entity.

An enterprise is an activity or a project that produces services or products. There are essentially two types of enterprise:

* Business enterprises, which are run to make a profit for a private individual or group of individuals. This includes small business.
* Social enterprises, which function to provide services to individuals and groups in the community.

**Business enterprises**

This is type of enterprise established by individual, corporate or government in order to provide essential service(s) while making profit or return. There are lots of different enterprises around; many are small businesses. Sometimes one person owns and runs them; sometimes they're a family business; other businesses are owned and run by partners who aren't family relations.

To earn an income from a small business, the enterprise has to run at a profit; that is, some money should be left over for the business owner once all the costs of making the product or delivering a service have been met. Entrepreneurs usually decide to set up small business to earn an income from producing and selling products or delivering services to individuals or other businesses.

**Common small businesses**

Some small businesses are easy to recognise because they have a location or shop-front or a site where you can see them in operation, making or fixing things and serving customers. For example:

* Furniture shop
* Small farm settlement
* restaurants / canteen
* bread making/confectionary
* printing works
* hairdressing salons
* Hotels
* Cosmetics and bead making
* Soap making etc

**Social enterprise**

Social enterprise functions as a way of providing services to individuals and groups in the community. A social enterprise is basically an organization or enterprise that applies business techniques to maximize improvements in human and environmental well-being with the intention of maximizing profits for external shareholders and providing essential services to the host community.

Why is the need for Social Enterprise? Social enterprises reinvest the money they make back into their business or the local community.

1. This allows them to tackle social problems,
2. Improve people's life chances,
3. Support communities and help the environment.

So, when a social enterprise makes profits, it has a positive multiplier effect on the society.

**Roles and objectives of an enterprise**

An enterprise that is characterized with commercial, financial, or business elements or purposes for instance, are created to;

1. Provide income for the owner,
2. Create jobs as well as
3. Develop the economy, etc

**Who is an Entrepreneur?**

Entrepreneur is refers to as a person who undertakes and operates a new venture, and assumes some accountability for the inherent risks. Entrepreneur can also be seen as a person who makes money by starting or running a business and identifies a vacuum in the market demand and creates a product to satisfy the need.

The concept of “entrepreneur” is a French word called “entreprendre” meaning to undertake. This concept was used to refer to a business organization in the 18th century who deals or buys and sells goods at uncertain prices.

**Definition of Entrepreneur from various writers**

Is a risk taker

An organizer

Entrepreneur is As an innovator

As a leader

Richard Cantillon (1755) defines entrepreneur as the agent who buys means of production at certain prices in order to combine them into a new product.

Say, J.B (1821) defines entrepreneur as one who brings other people together in order to build a single productive organism.

Schumpeter (1934) defines the entrepreneur as a person who is willing and able to convert a new idea or invention into a successful innovation

Ogundele (2000) defines entrepreneurs as the innovating individual, who initiates and nurtures to growth a new and an ongoing business organization, where none existed before. He is the individual who successfully thinks or conceives a new business concern, organizes or initiates actions to start it, and manages it through its initial problems and struggles for survival. He takes all measures that lead the organization to a state of stability and self-sustaining growth.

Drucker (1985) defines the entrepreneur as the innovative individual who perceives business opportunities and organizes the required resources to initiate a successful business activity for profit.

Kuratko and Hodgetts (2001) define entrepreneur as individual who recognizes opportunities where others see chaos and confusion.

The concept of entrepreneur could be historically summarized as shown below.

|  |  |
| --- | --- |
| **Period** | **Particularizations** |
| Early time | Stems from French: means: between, taker, go between. |
| Middle Age | Actor and persons in charge of large-scale production projects |
| 17th century | Person bearing risk of profit (loss) in a fixed price contract with government |
| 1755 | Richard Cantillon – person bearing risk |
| 1821 | Jean Baptist say – separated profits of entrepreneur from profits of capital interest. |
| 1904 | Max Weber – Protestant ethics and spirit of capitalism behavioural outlook |
| 1934 | Joseph Schumpeter – entrepreneur as innovators developing untried technology |
| 1961 | David McClelland – achievement oriented, energetic, moderate risk taker |
| 1964 | Peter Drucker – entrepreneur maximizes opportunities |
| 1975 | E.O. Akeredolu-Ale entrepreneur seen from socio cultural and political perspectives |
| 1975 | Albert Shapero – takes initative, accepts risks of failure, and organizes some social and economic mechanisms. |
| 1980 | Karl Vester – entrepreneur seen differently by economists, psychologists, business persons and politicians |
| 1985 | Robert Histrich – entrepreneur – assuming financial, psychological and social risks, in creating something different in value and receiving the resulting rewards of monetary and personal satisfaction. |
| 1995 | A.U. Inegbenebor – dynamic structure builders for effective performance. |
| 2000 | O.J.K Ogundele – empire builder exploiting opportunities |

*Source: Adapted from Histrich, R.D. and Peters, M.P. (2002) Entrepreneurship, New York: McGraw Hill higher education, and Ogundele, O. J .K (2007) Introduction to Entrepreneurship Development, Corporate Governance & Small Business Management. Lagos: Molofin Nominees.*

It could be seen from the table above that the concept of entrepreneur has varying origins and usages in different times and regions.

**Characteristics of an entrepreneur**

*Hornaday (1982) produced a list of forty two (42) characteristics which were often attributed to entrepreneurs; they are stated below.*

|  |  |  |  |
| --- | --- | --- | --- |
| 1. | Confidence | 22. | Responsibility |
| 2. | Perseverance | 23. | Foresight |
| 3. | Energy, diligence | 24. | Accuracy, thoroughly |
| 4. | Resourcefulness | 25. | Cooperativeness |
| 5. | Ability to take calculated risk | 26. | Profit orientation |
| 6. | Dynamism, leadership | 27. | Ability to learn from mistakes |
| 7. | Need to achieve | 28. | Sense of power |
| 8. | Optimism | 29. | Pleasant personality |
| 9. | Versatility, knowledge of product market, machinery, technology | 30 | Egotism |
| 10. | Creativity | 31 | Courage |
| 11. | Ability to influence others | 32 | Imagination |
| 12. | Ability to get along well with people | 33. | Perceptiveness |
| 13. | Initiative | 34 | Tolerance for ambiguity |
| 14. | Flexibility | 35. | Aggressiveness |
| 15. | Intelligence | 36. | Capacity for enjoyment |
| 16. | Orientation to clear goal | 37. | Efficacy-effectiveness |
| 17. | Positive response to challenge | 38. | Ability to trust workers |
| 18. | Independence | 39 | Sensitivity to others |
| 19. | Responsiveness to suggestions and criticism | 40 | Honesty, integrity |
| 20. | Time competence, efficiency | 41 | Commitment |
| 21 | Ability to make decisions quickly | 42 | Maturity, balance |

***Source: Adapted from Kuratko D.F and Hodgets R.M. (2001).***

**The top ten Characteristics of today Entrepreneurs**

1. Creative and innovate
2. Visionary and inspired
3. Perseverance
4. Optimistic
5. Gap-fillers
6. Coordinator and organizer

**FUNCTIONS OF ENTREPRENEURS**

***Ogundele,( 2004) has classified the functions of entrepreneur as follows***

**Social Functions of Entrepreneur**

1. Transforming traditional indigenous industry into a modern enterprise.
2. Stimulating indigenous entrepreneurship, the entrepreneur has in his employment potential rivals.
3. Jobs or employment creation in the community
4. Provision of social welfare service of redistributing wealth and income
5. Providing leadership for the work group
6. Providing for and responsible for the motivational system within the firm

**Economic Functions of Entrepreneur**

1. Marshalling the financial resources necessary for the enterprise or mobilizing saving
2. Bearing the ultimate risk of uncertainty.
3. Providing avenue for the dispersal and diversification of economic activities.
4. Utilization of local raw material and human resources

**Who can become an entrepreneur?**

Anyone can become an entrepreneur in as much as the person is ready to experience deep, dark and depth of uncertainty and ambiguity and ready to work through the breath of island of success.

An Entrepreneur is a catalyst for economic change, which uses purposeful searching, careful planning, and sound judgment when carrying out the entrepreneurial process. Uniquely optimistic and committed, the entrepreneur works creatively to establish new resources or endow old ones with a new capacity, all for the purpose of creating wealth.

**TECHNOPRENEUR**

A technopreneur is an individual whose business is in the realm of high technology, who at the same time has the spirit of an entrepreneur. The technopreneur represents new breed that is both innovative and equally enterprising. This concept is derived from combining together, technology and entrepreneur.

Ovia (2007) notes, a technopreneur is an entrepreneur whose business involves high technology or to put more clearly a technology innovator and a businessman all combined in one individual. The technopreneur, therefore, combines both technological know-how and business expertise. The technopreneurs thus combine the attributes of the scientist and an enterprise person in one individual.

**Characteristic of a Technopreneur**

* They are naturally gifted
* They are smart
* They are highly creative

Technopreneurs however, possess all the characteristics linked to an entrepreneur. The reason for the difference between technopreneur and entrepreneur is to identify an individual with science based innovate-ness and business based innovate-ness.

**Intrapreneurship**

Intrapreneurship refers to employee initiatives in organizations to undertake something new, without paying for the risk involved in the exercise." Hence, the intrapreneur focuses on innovation and creativity, and transforms an idea into a profitable venture, while operating within the organizational environment. Intrapreneurship is the act of behaving like an [entrepreneur](http://wap.gloworld.com/browse.php?u=Oi8vZW4ud2lraXBlZGlhLm9yZy93aWtpL0VudHJlcHJlbmV1cg%3D%3D&b=5), except within a larger organization or without necessarily taking a direct risk.

**What is Entrepreneurship?**

Entrepreneurship is seen as act of recognizing opportunities in the environment, mobilizing resources to take advantage of such opportunities, ensuring the provision of new or improved goods and services to the consumers and obtaining profit in return for the risk taking. Entrepreneurship is the process or a way of thinking, reasoning (about risk and return) and acting to gain at the long-run, (that is), trying to make use of the opportunity within the environment and takes responsibilities for mobilizing the required resources to take advantage and make profit in return.

Richard defines entrepreneurship in terms of uncertainty bearing

Say defines entrepreneurship in terms of coordination of production of Entrepreneurship resources

Schumpeter defines entrepreneurship in terms of introduction of innovation

Reich defines entrepreneurship in terms of leadership attribute

**Advantages of entrepreneurship**

1. Enormous personal financial gain
2. Self- employment
3. Create employment for others
4. Income generation and increased economic growth
5. Development of new market
6. It promotes exportation of goods and services
7. More goods and services are available

**Disadvantages of entrepreneurship**

1. High level of risks are involved
2. Lack of fund
3. Lack of government support for research and development
4. Lack of infrastructural support
5. Insecurity
6. Unstable economic policies

**Contributions of entrepreneurship**

1. Development of a new market
2. Discover new source of materials
3. Mobilize capital resource
4. Introduction of new technology
5. Create employment
6. Creation of wealth
7. Economic growth

**ENTREPRENEURIAL THEORIES**

Writers have come up with several theoretical frameworks on entrepreneurship development. These theories include but not limited to the following, economic, socio-cultural, managerial, educational, developmental, experiential, innovation, network, structural and multi-dimensional theories. Each of these theories had been used in the study of the processes of entrepreneurship. Let us now focus on summary of existing entrepreneurship theory.

**1.1 Entrepreneurial Theories**

**Economic Theory:** Writers like Schumpeter, (1934) and Drucker, (1985), see entrepreneur as the man who perceives business opportunities and takes advantage of scare resources to use them. Relevant, therefore, are the structure of economic incentives that are available in the market. The patterns of economic incentives have acted as stimuli for the emergence of entrepreneurs. They have also influenced the positive responses in terms of behaviour and their performance (Kilby, 1965; and Singh, 1985).

**Political Theory:** The influence of the political factor on the emergence, behaviour and performance of entrepreneurs had been reported by several writers. Schatz (1962 and 1964) discussed two forms of assistance that were provided for indigenous entrepreneur by government in Nigeria. These were (1) the financial support through the federal loans board and (2) the establishment of the Yaba Industrial Estate for use by indigenous entrepreneurs. Ogundele (2000) discussed the provision of training and financial assistance by government to indigenous entrepreneurs through National Directorate of Employment (NDE). Government by way of legislations and provision of infrastructures and other support systems have aided the entrepreneurial processes.

**Ecological Theory:** This approach is concerned with the influence of the environment on business start up, without having to obtain information about the characteristics and motivation of the organization founders (Left, 1979; Marret 1980, and Penning, 1982).

**Historical Theory:** This approach considered past historical antecedents as independent variable on the emergence, behaviour and performance of entreperneeurs. To the writers in this group belong (Cole, 1959; Akeredolu-Ale, 1975; and Rostow, 1982). Akeredolu Ale (1975) specifically emphasized the pre-empting of post war opportunities in explaining the underdevelopment of indigenous entrepreneurship in Nigeria.

**Managerial Theory:** This perspective focuses on the perception of market opportunities. It in addition emphasizes the operational skills required to run a successful enterprise (Kilby, 1971; Meredith, Nelson and Neck, 1991, and Osuagwu, 2001). Kilby (1971) listed thirteen managerial functions, which the entrepreneurs might have to perform for the successful operation of their enterprises. Carland, Hoy Boulton and Carland (1984) regarded the employment of strategic management practices as the function of entrepreneurs. Therefore managerial skills will have direct positive effect on the entrepreneurship processes of emergence, behaviour and performance. The environment that provides opportunities for relevant skills acquisition will tend to promote entrepreneurship.

**Educational Theory:** It is concerned with general level of education in the society. Its proponents contended that education tend to broaden peoples’ outlook. It equips people with needed skills to look at the world around them in a more organized and coordinated fashion. This will make them to perform better in entrepreneurial role (Aluko, 1983; Browen and Hisrich, 1986 and Singh, 1986). Akeredolu-Ale (1975) found that more entrepreneurs had lower levels of formal education than the civil servants. He could not establish any direct association between the level of formal education of entrepreneurs and the degree of success achieved. Bowen and Histrich (1986) reported that the general conclusion the entrepreneurs are less well educated than the general population was not supported by their study. Also Singh (1986) found that earlier notion that those lacking educational qualification were usually the ones who went in for business was not borne out on his study. Earlier on Aluko (1983) reported that new breeds of highly educated entrepreneurs were emerging in Nigeria. Ogundele (2000) found that the performance of some entrepreneur in his studied groups was aided by better education which many of them had. The broaden outlook through the educational process could aid in accurate perception of opportunities, and therefore affect entrepreneurial emergence, behaviour and performance.

**Innovation Theory:** Entrepreneurs are here considered as innovators whose task is creative destruction. This results from bringing about novel combination of products and ideas, thus rendering obsolete previously existing products or ideas. Consequently, the process of endowing resource with new wealth producing capacity is central to any conceptualization of entrepreneurship (Schumpeter, 1934, Tushman and Nelson, 1990, Amit Glosten and Muller, (1993). Kiby (1971) considered adaptation as innovative function of entrepreneurship in a developing economy. Amit, Glosten and Muller (1993) and Hobdat (1995) considered innovation as a distinguishing feature of entrepreneurship. It is, they noted, the process of extracting profit from new, unique and variable combination of resources in uncertain and ambiguous environment by exploiting opportunities. Innovation, therefore, is about exploiting opportunities.

**Network Theory:** This theory focuses on the social links which promote or hinder entrepreneurship. This is because, it considers entrepreneurship as being involved and as interacting in network of continuing social relations that open up or block entrepreneurs’ link with existing resources and opportunities. It is concerned with the intricate nature of interpersonal relationship (Aldrich Rosen and Woodward, 1987, Dubini and Aldrich, 1991 and Cardor, Zietsma, Saparito, Matheme and Davis, 2005). As a result relationship in social settings can provide opportunities for entrepreneurship.

**Structural Theory:** This approach examines the effect of internal patterns of relationship among various parts and components of an organization on entrepreneurship. It had been noted that the quality of organizational resources and the efficiency with which entrepreneurs carry out organizational functions affected their performance. The structure of entrepreneurial organization was found to have enabled them to react fast to changing environment and adapting to new demands. In addition internal structural arrangement to context was found as a significant basis for achieving effective performance (Akeredolu Ale, 1975; and Inegbenebor, 1995). Akeredolu-Ale (1975) noted that the entrepreneurs’ quality of organizational resources and consequently the efficiency with which they carry out organizational functions affected their performance. Inegbenebor (1995) argued that internal structural arrangement to the context has a significant basis for achieving effective performance. Emphasis was placed on the dynamic flexibility of entrepreneurial organizations. Thus the structural arrangements in entrepreneurial organization make them to be very adaptive to exploiting opportunities.

**Technological Theory:** This theory is concerned with machines, equipment, and tools used in producing goods and rendering services. (Woodward, 1965; Kiby, 1965; and Ekpo Ufot, 1990). Woodward (1965) found that technological complexity considerably influenced administrative structure, thus emphasizing the influence of technology on performance. Kilby (1965) noted that small indigenous entrepreneurial organization exhibited a feature of permissive technology leading to fast adaptation. Entrepreneurial technological innovation can be regarded as direct responses to opportunities in the relevant environment.

**Multi-Factor Approach:** Ogundele and Opeifa (2003) note that the existing theoretical framework reveals that several factors in combination affect the entrepreneurial processes. It is proposed therefore that several rather than a single factor will affect entrepreneurship. In Ogundele (2000), the specific set of factors used as explanatory variables were: (1) social relations (involving elements of socio-cultural and network theories), (2) political factor, (3) economic environment, (4) technology, (5) training and development (6) formal education, (7) previous work experiences, (8) innovation and (9) structural elements of the entrepreneur’s organization. This is a multidimensional factors and interdisciplinary approach to the study of entrepreneurship. It is to be noted that this approach is also based on the opportunities that exist at the appropriate level of analysis. The study predicted that the determinants listed above could positively and negatively affect entrepreneurial emergence, behaviour and performance in Nigeria.

Each of the various levels of theoretical formulation presented above is linked with opportunity of one type or the other. The recurrent emphases by various writers on opportunities in relation to entrepreneurship have provided the impetus for proposing the bounded opportunity approach to entrepreneurial study.

Researchers have also shown that perception of opportunities and the employment of strategic management practices are the functions of entrepreneurs (Kilby 1971, Carland Hoy, Boulton and Carland 1984 and Amit, Glosten and Muller, 1993). Stevenson (1998) and Timmons (1999) emphasized the dynamic nature of the opportunity in the environment and the reactions of the entrepreneur or entrepreneurial team in cashing on the opportunities.

***Entrepreneur practice***

***An educated person need not suffer from unemployment but can put his or her knowledge into use for some profit.***

Entrepreneurs get engaged in business activities and convert CAPITAL to PROFIT.

CAPITAL assets include: knowledge, time, good health, money, equipment, raw materials, and other materials, building space, transportation, communication services, etc. Knowledge is the starting point.

The net PROFIT is the money we have after paying off the costs of running the business, taxes, and all expenses incurred by the business.

In the course of carrying out business activities, Entrepreneurs seek for OPPORTUNITIES to be turned into profit, Entrepreneurs discover MARKETS that can be initiated, Entrepreneurs recognize and utilize positive MARKET FORCES.

When you observe a problem and you examine what is required to solve the problem, this is called a NEED ASSESSMENT.

People who make a lot of money include people who:

* Discover a need that many people generally have, therefore, there is a potential ***huge market*** in that need
* Recognize what would be useful for a particular population, group of persons, or profession therefore, there is a potential ***protected market*** in that need
* Have knowledge of how to convert a raw material to a finished product, therefore, there is a potential ***indispensable market*** in that need
* Discover how to make a process or product easier or better, therefore, there is a potential ***convenience market*** in that need
* Know what many people would enjoy, therefore, there is ***certain market*** in that need

A NEEDS ASSESSMENT is important BEFORE you begin a BUSINESS in order to ensure you generate a NET PROFIT.

* You need to assess if your target market is big enough, is stable, or protected, or convenient, or indispensable or certain, etc.
* You need to examine your capital assets
* You need to predict your profit

**INTERACTIVE DISCUSSION**

For fifteen minutes, think about how you can utilize knowledge from your field:

* To provide five different services
* To make five different products
* To enhance human life in general

For fifteen minutes, consider in turn: your neighborhood, your city, your village, your country.

* For each of these, think about what you like about these places. Think about the knowledge of those persons that made those things you like possible.
* Then think about what you do not like about each of these places. Consider what kind of knowledge is necessary to make to make a change for the better.

**HOMEWORK QUESTION 1**

If you have enough financial capital and time, how would you invest your money to make a difference in improving a certain aspect of life in your neighborhood and make some profit from doing so? (Write half a page only).

We come to the university to gain knowledge. We will also spend the rest of our lives learning in different ways. This knowledge gained can be used in different ways that we can receive money for. For example knowledge can be used: