

Unit-4

BASICS OF ENTREPRENEURSHIP

In this unit, one will learn about

- ✓ Who is Entrepreneur?
- ✓ Characteristics, Functions and Features of Entrepreneur
- ✓ Why to become Entrepreneur and How to succeed as Entrepreneur?
- ✓ Rewards, Penalties and Qualities of Entrepreneur
- ✓ Types of Entrepreneurship
- ✓ Integrity and Entrepreneurship

Introduction

Entrepreneur

Who is an Entrepreneur???

Entrepreneur acts 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 performs task of organizing and coordinating factors of production, i.e. land, labor and enterprises.

“An entrepreneur supervises monitors and controls the business activities”. He is a Risk taker, Organizer and Innovator.

Definition:

- A person who creates and manages change by the recognition of opportunities (needs, wants, opportunities, problems, and challenges) and develops people and manages resources to take advantage of the resources to take the opportunity and creates a venture (profitable business).

Or

- An individual who, rather than working as an employee, runs a small business and assumes all the risk and reward of a given business venture, idea, or good or service offered for sale. The entrepreneur is commonly seen as a business leader and innovator of new ideas and business processes.

Goals involved in Becoming an Entrepreneur

- Goal 1** Identify characteristics of successful entrepreneurs.
- Goal 2** Recognize the importance of entrepreneurship in the economy.
- Goal 3** Describe opportunities and risks of entrepreneurship.

Risks involved in becoming Entrepreneurs

- Risk is the potential of gaining or losing something of value. Values (such as physical health, social status, emotional well-being, or financial wealth) can be gained or lost when taking risk resulting from a given action or inaction.

- Risk can also be defined as the intentional interaction with uncertainty.
- Uncertainty is a potential, unpredictable, and uncontrollable outcome; risk is a consequence of action taken in spite of uncertainty.

The different risks are:

- Lack of adequate capital
- Low sales
- Higher than expected expenses
- Competitive pressure
- An owner unprepared to manage a growing business operations requiring more time than the owner is willing to commit.

Qualities of Entrepreneurs

Entrepreneurs will possess some different qualities which are not found in Managers or regular employees.

The qualities are

- Recognize opportunities where others see chaos or confusion
- Are aggressive catalysts for change within the marketplace
- Challenge the unknown and continuously create the future

Why to Become an Entrepreneur?

The following are the reasons why anybody wants to become an entrepreneur.

- Challenge
- Profit potential
- Enormous satisfaction
- Better quality of life
- Desire for independence
- Satisfaction of building something from nothing
- Watching the market embrace your ideas

What does it take to succeed as an entrepreneur??

- a. Innovation and creativity skills
- b. General management skills
- c. Business know-how
- d. Social networks

Characteristics or Personal Competency of an Entrepreneur.

- Desire to be your own boss
- Initiative
- Sees and Acts on Opportunities
- Persistence
- Information seeking
- Concern for High Quality Work and Output – Increased Productivity.
- Commitment to Work Contract
- Efficiency Orientation
- Risk taking
- Systematic and organized planning
- Problem Solving
- Self Confidence
- Inspirational - employees

- Effective Communicator – external & internal of organization
- Risk taking
- Systematic and organized planning
- Problem Solving
- Self Confidence
- Inspirational - employees
- Effective Communicator – external & internal of organization

The above said characteristics can be explained in detail as

Characteristics of an Entrepreneur

Entrepreneurs possess the following vital characteristics:

1. **An especially skillful person:** The entrepreneur is recognized as a person having a special skill and at the same time a person providing others for motivation. He may be either a single individual or an individual in a group. Whatever he may be, he possesses that special skill which is not generally found in common man.
2. **An innovator:** He is rightly known as an innovator who engages himself to innovate new varieties of products, explores new market horizons, and introduces new techniques of production and methods of reconstruction of industries. According to Schumpeter, the main characteristic of an entrepreneur is to innovate something. Through such innovation, the execution and effective use of a creative idea are ensured. Its success brings for commercial achievement and new horizon of economy emerges.
3. **Providing completeness to the factors of production:** An entrepreneur procures necessary resources from various sources for the purpose of production and by utilizing them he provides

completeness to the factors of production. Moreover, he endeavors to make contact with various markets for his products. He is a risk-taker and functions as a coordinator.

4. **Decision-making person:** The entrepreneur is such a person who is endowed with a power to make a proper decision as regards the establishment of a business, its management, and procurement of different factors, methods of distribution and coordination of various scarce resources. Since he has a strong power of decision-making, he can take decisions on various matters rapidly. His achievement largely depends on the ability of his decision making.
5. **A basic plan-maker:** An entrepreneur is the owner, employer, producer, market-creator, decision-maker, risk-taker, coordinator, and user of market information, creative individual and innovator. For this, he is regarded as a pioneer of economic development.
6. **A pioneer of economic development:** An entrepreneur is the owner, employer, producer, market-creator, decision-maker, risk-taker, coordinator, and user of market information, creative individual and innovator.
7. **Dynamic leader:** He provides proper motivation to his workers by means of leadership so that the workers can give their best efforts to the interest of the organization.
8. **Creator of wealth:** The entrepreneur uses various resources for running his products or services are produced. Hence, the entrepreneur creates his personal wealth and at the same time he helps to increase social wealth, because new wealth is created due to increase in demand for product or services. As such, creation of wealth is one of the basic features of an entrepreneur.

9. **Risk-bearer:** It is needless to say that an entrepreneur has to bear the various risks concerning the enterprise. Without risk bearing, his enterprise activities cannot be conducted. The capacity of an entrepreneur to bear the risks is his inherent feature. He has to bear always the risks in case of production of any new product or service. There are various types of risks to be borne by him. These are risks associated with procurement of raw materials and capital and marketing of goods, etc. this risk bearing is the prerequisite to his success. This is the part and parcel of his daily activities.

Entrepreneur vs. manager:

The terms Entrepreneur and Manager are considered one and the same. But the two terms have different meanings.

The following are some of the differences between a manager and an entrepreneur.

- The main reason for an entrepreneur to start a business enterprise is because he comprehends the venture for his individual satisfaction and has personal stake in it where as a manager provides his services in an enterprise established by someone.
- An entrepreneur and a manager differ in their standing, an entrepreneur is the owner of the organization and he bears all the risk and uncertainties involved in running an organization where as a manager is an employee and does not accept any risk.
- An entrepreneur and a manager differ in their objectives. Entrepreneur's objective is to innovate and create and he

acts as a change agent where as a manager's objective is to supervise and create routines. He implements the entrepreneur's plans and ideas.

- An entrepreneur is faced with more income uncertainties as his income is contingent on the performance of the firm where as a manager's compensation is less dependent on the performance of the organization.

Intrapreneur vs. Entrepreneurs

Meaning of Intrapreneur:

"A person within a large corporation who takes direct responsibility for turning an idea into a profitable finished product through assertive risk-taking and innovation"

- Entrepreneurs provide the spark. Intrapreneur keeps the flame going.
- Entrepreneurs are found anywhere their vision takes them. Intrapreneur work within the confines of an organization.
- Entrepreneurs face many hurdles, and are sometimes ridiculed and riddled with setbacks. Intrapreneurs may sometimes have to deal with conflict within the organization.

Rewards for an Entrepreneur

- Freedom to work

The freedom you have will also add to your life satisfaction and make you more fulfilled. You have the freedom to choose if you want to work from home or while you are travelling, and you can choose when you want to work.

➤ Satisfaction of being own boss and power to do things

A major benefit of starting you own venture is that you have a large degree of agency and control of what is happening in your company. You can decide whom you want in your team and you set the vision for the company and make strategic decisions.

➤ Respect of family and friends

Because you own the company, you can decide how to organize your schedule and when to take time off, but the truth is that entrepreneurs often have to work very long hours, particularly in the beginning.

Risks for an Entrepreneur

✓ Availability of limited capital and other resources.

A lot of times entrepreneurs have to use their own savings to get their business off the ground until they have developed it enough to be ready for external funding from angel investors, government grants, loans or crowd funding campaigns. If you are not planning to take investment or look for funding, the strain on your savings can be even larger.

✓ Social and family life is affected.

You will spend countless hours working on your business to make it successful, which will make you miss out on personal time and often entrepreneurs end up sacrificing their health by not sleeping enough, being under constant stress and eating unhealthy foods.

- ✓ Risk of failure.
- ✓ Constraints of financiers, laborers, customers, and suppliers.

Starting a business will mean that you will go through an emotional rollercoaster – you may feel others had it easier to start with, there might be jealousy of a competitor who got into press, romantic difficulties because you are spending so much time on the business, self-doubt, problems with time management and not enough time to see your family and friends, feeling of rejection by investors, press, etc., or problems with your fellow co-founders or employees. It can also be a large burden to be responsible for the business all by you, which can be scary and lead to feelings of loneliness.

Roles of an Entrepreneur:

Here we simply enlist the different roles of the entrepreneur:

- (i) Entrepreneur is a risk-taker
- (ii) Entrepreneur helps in business management as well.
- (iii) Entrepreneur plays the role of a business leader.
- (iv) Entrepreneur plays the role of an innovator.
- (v) Entrepreneur promotes capital formation.
- (vi) Entrepreneur creates large-scale employment opportunities.
- (vii) Entrepreneur promotes balanced regional development.
- (viii) Entrepreneur reduces concentration of economic power.
- (ix) Entrepreneur helps in wealth creation and distribution.
- (x) Entrepreneur contributes to the increase of gross national product and per capita income.
- (xi) Entrepreneurial initiatives and actions help in improving the general standard of living.
- (xii) Entrepreneurial activities promote country's export trade and helps in import substitution.

Functions of an Entrepreneur

- **Idea generation**

The entrepreneur plays an important role in generating the idea of a commercial venture. The entrepreneur must be able to visualize the need and utility of a product or a new project. Entrepreneurs carry out environmental analysis and study the future business environment and thereby provide novel ideas.

- **Determination of business objectives**

The entrepreneur has to develop and determine the vision and mission of the enterprise. The entrepreneur has to convert the conceived ideas into clear cut objectives and goals of the enterprise. Whether the enterprise would manufacture its own products or would confine to trading only. The entrepreneur has to ascertain the nature and type of the business and the scale of operation. He/she has to draw out an action plan to be implemented in a time bound manner.

- **Rising of funds**

The entrepreneur has to arrange the funds necessary for the business initiative. It is not necessary that the entrepreneur has ready access to funds. The entrepreneur has to raise funds from other sources. The entrepreneur can take aid from government schemes; loans from commercial banks and financial institutions raise private loans etc.

- **Procurement of machines and materials**

The entrepreneur has to ensure availability of quality raw materials at lowest cost. The supply of raw materials has to be steady. Keeping in view the requirements of the enterprise, the entrepreneur must procure appropriate machineries and equipment. The entrepreneur has to keep a watch on the technological environment and has to procure and install machinery that would be useful for the company.

- **Market research**

The entrepreneur after concretizing the ideas of the product has to undertake a market research. The market research would enable the entrepreneur to know the prospect of the product that he/she intends to produce. The entrepreneur may deploy research teams to conduct the survey and prepare the report.

- **Determining form of enterprise**

The entrepreneur has to ultimately decide the form of the enterprise whether it should be a sole proprietorship, partnership, Joint Stock Company or a cooperative society. The legal status of the enterprise has to be decided by the entrepreneur.

- **Recruitment of manpower**

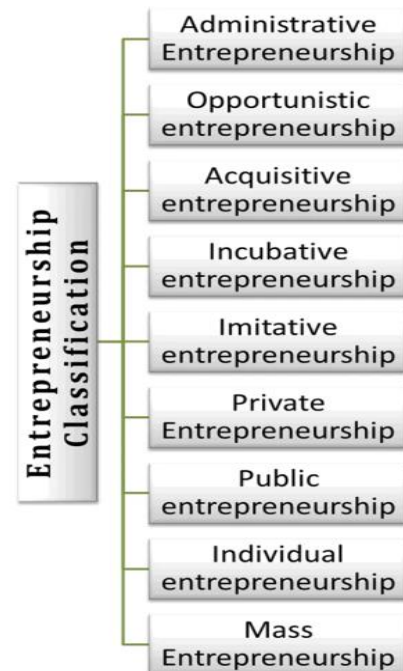
The entrepreneur has to decide the recruitment process, the eligibility norms and salaries of the workers. The entrepreneur also has to determine the rules and regulations of service and ensure development of skills of the manpower.

▪ **Implementation of the project**

The entrepreneur must ensure that the project commences as per the schedule of the action plan. All possible efforts are to be made to prevent any delay.

Entrepreneurship is classified in Nine Types:

Administrative Entrepreneurship.
Opportunistic Entrepreneurship.
Acquisitive Entrepreneurship.
Incubative Entrepreneurship.
Imitative Entrepreneurship.
Private Entrepreneurship.
Public Entrepreneurship.
Individual Entrepreneurship.
Mass Entrepreneurship.



Administrative Entrepreneurship:

The entrepreneurial activity under this category is centered on administrative techniques and functions. It gives a new option to handle prevailing or future situations in a more effective way that provides advantages and a competitive edge.

Total Quality Management, job redesigning, new techniques of doing things, participative management or management by consensus are a few of the examples of administrative entrepreneurship that increase overall organizational efficiency and that makes the firm successful and sustainable in the competitive market environment.

The old-age pension scheme is such administrative entrepreneurship of the government.

Opportunistic entrepreneurship

There is a proverb “Hit! While the iron is hot”. It is the best exhibit of the characteristic of this category of entrepreneurship.

Environmental changes always offer new opportunities. But everybody is not equally capable of identifying and to utilize that opportunity on time.

The entrepreneurship that identifies exploits and executes the opportunity in the first hand regarded as opportunistic entrepreneurship.

Acquisitive entrepreneurship

The entrepreneurship that learns from other competencies is called acquisitive entrepreneurship.

It acquires something new of value front, the competitive environment or achieves the competitors’ technical capacities. It keeps entrepreneurship sustainable in a competitive environment.

The failure never restraints them from acquisition but motivates them further to discover such a thing with a new visitor.

Incubative entrepreneurship

This category of entrepreneurship generates and nurses new ideas and ventures within the organization.

It productively executes them and ensures material gain for the organization.

They pursue and help to get differentiated technologies to promote creations and innovations Microsoft, Nokia, etc. always incubates new varieties types of product and creates product differentiation in the market.

Imitative entrepreneurship

The entrepreneurship that imitates a good or service operating in the market under a franchise agreement is the imitative entrepreneurship. It is the medium that spread technology over the world.

It adopts an existing technology in countries over the world. It also adopts an existing technology with minor modifications appropriate to the local condition.

Private Entrepreneurship

The entrepreneurship that is initiated under the private sector is private entrepreneurship.

The government gives various support services through private and public concerns that encourage private initiative in taking entrepreneurial ventures.

A layer and mutual relationship between private and public sectors would make economic development speedy and balanced.

Public entrepreneurship

The entrepreneurship that is undertaken by the government through its various development agencies is defined as public entrepreneurship. All countries, developed or underdeveloped, take a public initiative in venture ideas to fulfill the initial deficiency of private entrepreneurs.

Individual entrepreneurship

The entrepreneurship that is undertaken by an individual or a family with his initiative is called individual entrepreneurship.

Mass Entrepreneurship

This type of entrepreneurship emerges in an economy where a favorable climate of motivation and encouragement exists for developing a wide range of entrepreneurship among general mass is mass entrepreneurship.

It increases small and medium enterprises in a country.

Hans Schollhammer (1980) has classified entrepreneurship into five categories such as administrative, opportunistic, acquisitive, incubative and imitative entrepreneurship.

Integrity

What Is Integrity?

An uncompromising adherence to doing what is right and proper

- Honesty, reliability, and fairness
- Vital element of successful business relationships
- Is as much about **what to do** as it is **who to be**.
- Doing the Right Thing

Ethical Issues in Business Operations

- Income and expense reporting (tax fraud)
- “Truth in advertising”—persuasion and deception
- Bribing customers and rigging bids
- Direct selling—pyramid schemes, bait-and-switch selling
- Effects of owners’ ethics on their employees
- Accurately reporting financial information

Kinds of Ethical Issues

- Ethical Issues and Employees
- “To do an honest day’s work”
- Fraudulent workers’ compensation claims
- Theft of company property and embezzlement of funds
- Violation of personal ethics to make a sale
- Social Responsibilities and Small Business