

**ENTREPRENEUR DEVELOPMENT - INTRODUCTION AND THEORIES OF
ENTREPRENEURSHIP**

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1.1.0 Objectives

The objectives behind writing this lesson are to understand-who is an entrepreneur and how the entrepreneurial skills grow in India with emergence of entrepreneurial class. Then next part of the lesson explains Theories of entrepreneur and different approaches. So by reading this lesson one can easily understand the concept of entrepreneurship, its growth over a period of time and the basic theories behind the concept of entrepreneurship.

1.1.1 Introduction of Entrepreneur :

The word 'entrepreneur' first appeared in the French language and was applied to leaders of military expeditions in the beginning of the sixteenth century. Bernard Belidor applied it to the function of buying labour and material at uncertain prices and selling the resultant product at a contracted price. Richard Cantillon, use the term 'entrepreneur' to refers to economic activities. He defined an entrepreneur as a person who buys factors services at certain prices with a view to sell its product at uncertain prices in the future. He conceived on an entrepreneur as a bearer of non-insurable risk.

In the 17th and 18th centuries writers opined that the essential characteristics of an entrepreneur was to take risk and create innovations.

1.1.2 Who is an Entrepreneur :

Oxford English Dictionary defined entrepreneur as 'one who undertakes an enterprise, especially a contractor acting as intermediary between capital and labour.' Undertaking of an enterprise involves combining capital and labour for the purpose of production. Any one who undertakes this task is entrepreneur. Thus the entrepreneur can be defined as innovator, a risk taker, a resource assembler, an organization builder and so on.

An entrepreneur introduces new ideas, carries on new activities, coordinates the factors of production and decides how the business shall run. He anticipates the future trend of demand and price. He has vision, originality of thoughts and ability to take calculated risks.

1.1.3 Definitions of an Entrepreneur :

1) According to J.B. Say :

An Entrepreneur is an agent who unites all means of production and who establishes the value of the products. Pre-establish the entire capital, the employees, and the values of the wages, the interest and the rent which he pays, as well as the profits to himself. He may or may not supply capital, but he must have judgment and preserverance and knowledge of the world of business. He must possess the art of supervision and administration.

According to Say, three factors form crux of entrepreneurship are :-

- a) Moral qualities for the work consisting of judgment, preserverence and knowledge of business environment.
- b) Command on sufficient capital resources.
- c) And effective superintendence and administration to overcome uncertainty of profits.

2) According to F.H. Knight :

Entrepreneur is the economic functionary who undertakes such responsibility which can't be insured nor salaried. He also guarantees specified sums to others in return for assignments made to them. The supply of entrepreneurship involves three factors namely ability, willingness and power to extend guarantees about return to others.

Knight also identifies the economic, social and psychological factors which governs the supply of entrepreneurship.

3) According to Adam Smith :

Entrepreneur is a proprietary capitalist who supplies capital and works as a managers intervening between labour and the consumer.

4) According to J.A. Mills :

Entrepreneur is the organizer who is paid for his manual type of work.

5) According to Schumpeter :

Entrepreneur basically is an innovator who carries out new combinations to initiate and accelerate the process of economic development. Innovations may assume the following forms :-

- i) Introduction of new goods
- ii) Introduction of new methods of production
- iii) Opening of a new market
- iv) Conquest of raw sources of raw material or half manufactured goods
- v) Carrying of new organization of any industry.

1.1.4 ENTREPRENEURIAL GROWTH IN INDIA

A proper understanding of the entrepreneurial history of any country must evolve itself within the context of the economic history of that particular country. The review of entrepreneurial growth in India has, therefore, been divided into three sections, viz., entrepreneurial growth before 1850, from 1850 till independence and post independence.

1.1.4.1 Entrepreneurial Growth Before 1850

People were organised in a unit which was the agricultural village, termed as village community. The village life was in no way dominated by the towns. Village community consisted of farmers, artisans, Brahmins, weavers, carpenters, gold smiths etc.

Manufacturing entrepreneurship did not develop in India till 1850 due to

weak communication and transportation systems. The urban industries were well organised and were flourishing by the end of 19th century. Towns were trading as commercial centers and the life there was much different from the villages. There existed a large variety of occupations and trades in towns which entered to wider markets. Although entrepreneurial talent was in abundance in the Indian businessman but India did not offer much scope for its development.

Why entrepreneurship did not grow early in India can be explained by multiple factors :

- (i) Lack of capital, raw material, sales and financing,
- (ii) Lack of political unity,
- (iii) Network of custom barriers,
- (iv) Existence of innumerable systems of currency,
- (v) Regional markets plagued by arbitrary political authority
- (vi) Taxation policies, and
- (vii) Low prestige of businessman,

1.1.4.2 Entrepreneurial Growth after 1850

Manufacturing entrepreneurship emerged as the latent consequence of East India Company's advent in India. In 1858, there were four cotton textiles mills in India and within a period of 25 years, its number had increased to 58. The East India Company established its first ship building industry in Surat. By the last quarter of 19th century, there were 51 cotton mills and 18 Jute mills.

The Britishers have developed India in many ways but it is not correct to argue that they showed a spirit of adventure. These efforts were undertaken by them only when they felt attracted by high profits available in the areas. But their contribution in development can't be ignored. Not only that, the entire policy of protection was aimed at protecting the British industrial and commercial interest. So, they were bothered about their own benefit only.

1.1.4.3 Entrepreneurial Growth During Post-Independence Era

Entrepreneurial growth during post-independence era truly means the industrial development, innovational efforts on the part of individuals or corporations relating to a product, organization of market, rise the mobility of certain castes or communities in relation to business activities, or entry of venturesome capital in an altogether new line. It may also be construed as a slow or creeping change in the traditional structure of agriculture. The link between infrastructure and development is not a once and for all affair. It is a continuous process, and progress in development has to be preceded, accompanied and followed by progress in infrastructure. It is necessary to keep all above mentioned areas in mind while studying entrepreneurial growth during post-independence period.

1.4.4 Industrial Policy, 1948

The attainment of independence of India on August 15, 1947 made a tremendous difference to the industrial landscape. Indigenous entrepreneurship was no longer required to function as the camp followers of foreign interests. Production in India had declined and the population was increasing. Inflation was showing its giggling teeth. In view of the need to step up production and combat inflationary tendencies, to ensure economic security which is vital for the industrial growth and to produce a stimulating climate for investment in industry. Industrial Policy 1948 was announced to maintain a proper distribution of economic power between private and public sector and to encourage the tempo of industrialization by spreading entrepreneurship from the existing centers to other cities, towns and villages.

Self-Check Exercises-1

Q. What is meant by the concept of Entrepreneurship, explain it with three phases of entire entrepreneurial growth?

1.1.5 Classification of Entrepreneur :

In the initial stages of economic development, entrepreneurs tend to have less initiative and drive. As development proceeds, they become more innovating and enthusiastic, similarly when entrepreneurs are shy and humble, the environment is under developed. Business environment becomes healthy and developed when entrepreneurs are innovating. As from the above discussion we understand why the Indian entrepreneurs are not developed so early and how the Indian entrepreneurs are developed in three phases of the entire life cycle of industrialisation of Indian industry. So, from the above discussion entrepreneurs are classified as follows :

1.1.5.1 Innovating entrepreneur :

Innovative entrepreneurship is characterized by aggressive assemblage of information and the analysis of results derived from sound combination of factors. Persons of this type are generally aggressive in experimentation and cleverly put attractive possibilities into practice. An Innovative entrepreneur analyses the opportunity for introducing a new technique or a new product or a new market. He or she may raise money to launch an enterprise, assemble the various factors, choose top executives and set the organization going. Such as entrepreneur introduces new products and new methods of production; opens new markets and re organize the enterprise. There entrepreneurs played the key role in the rise of modern capitalism though their enterprising spirit, hope of money making ability to recognize and exploit opportunities.

1.1.5.2 Adoptive or imitative entrepreneur :

(i) This kind of entrepreneur is ready to adopt successful innovations created by

innovative entrepreneurs.

- (ii) Such entrepreneurs are particularly important in underdeveloped countries because they contribute significantly to development of such economies, because in these nations people prefer to initiate the technology, knowledge and skill readily available in more advanced countries.
- (iii) These entrepreneurs face lesser risks and uncertainty.

1.1.5.3 Fabian Entrepreneurs :

These entrepreneurs are very cautious and skeptical while practicing any change nor the desire to adopt new methods innovated by the most enterprising entrepreneurs. Such entrepreneurs are shy and lazy. Their dealings are determined by customs, religions, traditions and past practices. They are not much interested in taking risk and they try to follow the footsteps of the predecessors.

1.1.5.4 Drone Entrepreneurs :

Such entrepreneurs may even offer losses but they do not make changes in productions methods. They continue to operate in their traditional way and resist changes, when their product loses market ability, and their operations becomes uneconomical they are pushed out of the market. Drone entrepreneurs are further classified as :

1.1.5.4.1 Individual and institutional entrepreneur :

In small scale sectors individuals entrepreneurs are dominant. A group of entrepreneurs has to be developed to handle the increasing complex network of decision making. These exist in corporate sectors.

1.1.5.4.2 Entrepreneurs by inheritance :

People becomes entrepreneurs when they inherit the family business

1.1.5.4.3 Technologist entrepreneurs :

These entrepreneurs may enter business to commercially exploit their inventions and discoveries. Their main asset is technical expertise. They raise the necessary capital and employ experts in financial, legal, marketing and other areas of business.

1.1.5.4.4 Forced entrepreneurs :

The money lenders, NRI's and educated unemployed and persons seeking self employment are called forced entrepreneurs. These entrepreneurs accounts for the maximum numbers of failures because there is no proper screening of misfits. Failure of this type of entrepreneurs can be reduced with proper training.

1.1.6 Different views on Entrepreneurship

1.1.6.1 Schumpeter's view on entrepreneurship :

According to him entrepreneurship is essentially a creative activity. It consists of doing such things as are generally not done in the ordinary course of business. An entrepreneur is one who innovates i.e., carries out new

combinations of enterprise. Entrepreneurs are especially motivated and talented class of people and key figure in development. Schumpeter stressed the role of the entrepreneurial function in economic development. He recognized that development was more than putting money into the bank and watch growing. Development requires basic changes and the entrepreneurs carry out the required changes. Then entrepreneurs lead the means of production into productive channels. Schumpeter's innovating entrepreneur represents the most vigorous type of enterprise, but this type of entrepreneur is a rare specie in developing countries.

Schumpeter only pointed out that entrepreneurs are not a class in themselves like capitalists and workers. An individual is an entrepreneur only when he actually carries out new combinations and ceases to be an entrepreneur, the moment he settles down to running the established business.

1.1.6.2 Walker's view on entrepreneurship :

According to Walker, an entrepreneur is an organizer and coordinator of the various factors of production. The true entrepreneur is one who is endowed with above mentioned ability for organization and coordination. He is a pioneer and a Captain of industry. But in practice entrepreneurs possess different degrees of organizational skill and coordinating capacity.

1.1.6.3 Drucker's view on entrepreneur :

An entrepreneur is one who always searches for changes, responds to it and exploits it as an opportunity. So according to him the aim of entrepreneurship is to increase the value and satisfaction obtained from resources by the consumer. Successful entrepreneurs convert the material into resource or combine existing resources in a new or more productive configurations.

The concept of entrepreneurship is as old as civilization while the theories of entrepreneurship have been evolved from over a period of more than two centuries. Theories of entrepreneurship can broadly be classified into four categories :

- (i) The economist's view
- (ii) The psychologist's view
- (iii) The sociologist's view
- (iv) The anthropologist's view.

1.1.7 THEORIES OF ENTREPRENEURSHIP :

1.1.7.1 Economic Theory

Economic theory of entrepreneurship centers around Joseph Schumpeter. The economic theory developed by him is versatile and multi-disciplinary. According to him, all problems in economic theory could be solved with the help of equilibrium theory. He developed an economic theory stating that all true changes in the economy are set off by the entrepreneur and then these changes slowly work themselves through

the economic system, in the form of a business cycle. Joseph Schumpeter asserted that the theory of, entrepreneurship should be based on the actual activity of the entrepreneur.

Other economists assert that entrepreneurship and economic growth will take place in those situations where particular economic conditions are most favourable. A desire to have more economic gains sparks the entrepreneurial instinct. Therefore, these incentives and gains are regarded as enough condition for emergence and growth of entrepreneurship. Lack of incentives, unattractive economic policies and unfavorable market conditions tend to reduce the vigor of entrepreneurship.

1.1.7.2 Sociological Theory :

According to Sociologists, entrepreneurship can be conceptualized as a social movement and entrepreneurs exist not only in the economy but in other spheres of society as well. Cultural values deeply affect entrepreneurship and the level of economic development. Family ties may create an obstacle for a businessman if he cares for his family too much. Moreover if he is engaged in a family business they will not easily permit him to come up with new and risky ideas discusses the role of trust in entrepreneurial ventures. According to him, in social groups and societies where people are isolated from each other, it may be difficult to develop the kind of confidence that is absolutely necessary to start a firm or otherwise cooperate in economic matters. Thus, Sociologists emphasise on the role played by society and family-members in growth of entrepreneurship.

Hoselitz suggests that culturally marginal groups promote entrepreneurship and economic development. Such groups, because of their ambiguous position, are peculiarly suited to make creative adjustments and thereby develop genuine innovations. In societies in which the values of dominant cultures are not supportive of entrepreneurial activity, someone who is relatively outside of the social system may have a particular advantage in entering an entrepreneurial activity.

As put by Robert Park, the creative role of a deviant, or the outsider, has in past been conceptualized by the term, "Marginal Man", who for various reasons is potentially outside the culture in which he is living, is less socially integrated in the structures which maintain conformity, and is therefore not so committed to the established value of larger order. Hence men of this sort are more likely to be receptive to possibilities for change. But studies also show that every minority group does not show such propensities.

According to Cochran, the entrepreneur gives society's model personality. His performance depends upon his own attitude towards his occupation, the role expectations of sanctioning groups and the occupational requirements of the job. Society's values are the most important determinant of attitudes and role expectations.

Everett E. Hagen argues that people who have grown up in certain minorities develop a much stronger psychological propensity for entrepreneurship than who have not. Hagen also concluded that entrepreneurs have emerged from certain communities and castes. Thus, Hagen disregard the complicated institutional environment that surrounds the entrepreneur.

1.1.7.3 Psychological Theory

Entrepreneurship is more likely to emerge when a society has sufficient supply of individuals possessing particularly psychological characters. Psychological theory of entrepreneurship has a fairly high status among social scientists who study entrepreneurship because it is very difficult to single out one or several psychological traits as typical for entrepreneurial personality. Joseph Schumpeter states that the entrepreneur is mainly motivated and driven by these things :

- (i) the desire for power and independence;
- (ii) the will to succeed;
- (iii) the satisfaction of getting things done.

According to him, money is not what ultimately motivates the entrepreneur. 'Entrepreneurs', according to Schumpeter, are certainly not economic men in the theoretical sense'. Thus he supports the psychological theory and not the economic theory. He asserts that what matters is the behaviour, and not the actor. He identified three features of entrepreneurs that were related to their need for achievement :

- (1) desire to accept responsibility for solving problems, setting goals and reaching the goals;
- (2) a willingness to accept moderate risks;
- (3) a desire to know the outcomes of their decisions.

It is concluded that the degree of ambition and ability, extent of environment rather than personality or ego are the major determinants of whether or not an individual becomes an entrepreneur.

1.1.7.4 Anthropological Theory

According to Barth, entrepreneurship has essentially to do with connecting two spheres in the society, between which there exists a difference of values. Something which is cheap in one sphere, may be expensive in another sphere. Barth, one of the leading anthropologists of the world, states that entrepreneurial behavior means to connect two different spheres in the society, between which there is a huge discrepancy in value.

Each of the above theories is incomplete and none of them is right or wrong. Theories of entrepreneurship are inter-disciplinary and are influenced by a multitude of factors. It is concluded that the degree of ambition and ability, extent of environment rather than personality or ego, are the major determinants of whether or not an individual becomes an entrepreneur.

Self-Check Exercises -2

Q. Discuss various theories of entrepreneurship?

1.1.8 Summary

The term 'entrepreneur' refers economic activities. An entrepreneur is a person who buys factors services at certain prices with a view to sell its product at uncertain prices in the future. He conceived of an entrepreneur as a bearer of non-insurable risk. Thus the entrepreneur can be defined as innovator, a risk taker, a resource assembler, an organization builder and so on. An entrepreneur introduces new ideas, carries on new activities, coordinates the factors of production and decides how the business shall run. Entrepreneur basically is an innovator who carries out new combinations to initiate and accelerate the process of economic development.

The evolution entrepreneurship can be traced back to even as early as the period of Rig Veda when metal handicrafts existed in the society. In the initial stages of economic development, entrepreneurs tend to have less initiative and drive. As development proceeds, they become more innovating and enthusiastic, similarly when entrepreneurs are shy and humble the environment is under developed. Business environment becomes healthy and developed when entrepreneurs are innovating. As from the above discussion we understand why the Indian entrepreneurs have not developed so early and how the Indian entrepreneurs are developed in three phases of the entire life cycle of industrialisation of Indian industry. The concept of entrepreneurship is as old as civilization while the theories of entrepreneurship have been evolved from over a period of more than two centuries. Theories of entrepreneurship can broadly be classified into four categories :

- (i) The economist's view
- (ii) The psychologist's view
- (iii) The sociologist's view
- (iv) The anthropologist's view

Entrepreneurs do not emerge at their now. Various economic, social political, technological and psychological factors are responsible for the emergence and growth of entrepreneurship. Environmental forces exert both positive and negative impact on entrepreneurship.

1.1.9 Recommended Books

1. Entrepreneurial Development : C.B. Gupta & N.P. Srinivasam
2. Fundamentals of Entrepreneurship : Arora Renu ; Sood S.K.
3. Dynamics of Entrepreneurial Development and Management : Vasant Desai

1.1.10 Glossary

psychological	:	emotional
emergence	:	appearance/surfacing
recognize	:	be familiar with / know
intermediary	:	go between/ mediator
Strategic	:	planned/ tactical

1.1.11 Answer to Self-Check Exercises

- 1) For answer see 1.2, 1.3 & 1.4
- 2) For answer see 1.71 to 1.7.4