

ROLE OF ENTREPRENEUR IN ECONOMIC GROWTH

LESSON STRUCTURE :

- 1.8.0 Objectives
- 1.8.1 Introduction
- 1.8.2 Entrepreneurial Activity - A Historical Perspective
- 1.8.3 The Modern Entrepreneur
 - 1.8.3.1 Common Issues
 - 1.8.3.2 Personal Qualities and Traits
 - 1.8.3.3 The Future of Entrepreneurship
- 1.8.4 Role of an Entrepreneur
 - 1.8.4.1 Entrepreneur as an Innovator
 - 1.8.4.2 Entrepreneur and Economic Development
- 1.8.5 Importance of Entrepreneurship in Economic Growth
- 1.8.6 Summary
- 1.8.7 Self-Assessment Questions
- 1.8.8 References and Suggested Readings

1.8.0 OBJECTIVES :

The major objectives of this lesson are :-

- Personal Qualities and Traits of an Entrepreneur
- Role of an Entrepreneur
- Entrepreneur as an Innovator
- Entrepreneur and Economic Development
- Importance of Entrepreneurship in Economic Growth

1.8.1 INTRODUCTION

Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or aggrandize profit by production, or distribution of economic goods and services. Entrepreneurship is very often associated with adventurism, risk bearing, innovating creativity etc. It is concerned with making dynamic changes in the process of production, innovation in production, new usage for materials etc. It is a mental attitude to take calculated risks with a view to attain certain objectives. It also means doing something in a new and better manner.

Entrepreneurs play a vital role in the economic development of a country. Economic development of a country depends primarily on its entrepreneurs. An entrepreneur is very often considered as a person who sets up his own business or industry. He has initiative, drive, skill and spirit of innovation and he aims at high goals. He looks for opportunities, identifies opportunities and seizes opportunities mainly for economic gains. Entrepreneurs are action-oriented, highly motivated individuals who take risks to achieve goals. The Global Entrepreneurship Monitor 1999 defined entrepreneurship as "any attempt at new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business, by an individual, a team of individuals, or an established business."

1.8.2 ENTREPRENEURIAL ACTIVITY - A HISTORICAL PERSPECTIVE

Entrepreneurship is a major contributing factor to the economic well-being of a country both in terms of economic growth and job creation. Traditionally, entrepreneurial ability tends to focus on the following four attributes :

⇒ Initiative - the entrepreneur takes the initiative to bring together the economic resources of land, labor and capital to produce a commodity (whether a good or a service) with the hope that such production will create a profitable business venture.

⇒ Decision making - the entrepreneur makes the basic business policy decisions for the business, thereby setting the course of the enterprise.

⇒ Innovation - the entrepreneur is an innovator, attempting to introduce new products and new ways of doing things.

⇒ Risk taker - the entrepreneur risks his or her time, effort, business reputation and invested funds in the entrepreneurial venture.

1.8.3.1 THE MODERN ENTREPRENEUR

Until recently, the above attributes, especially innovation and risk-taking, were the dominant factors that defined the characteristics of those who chose to become entrepreneurs.

Now, however, with corporate downsizing being a fact of life, many entrepreneurs find themselves thrust into the role by default.

The question for anyone either finding themselves in this position involuntarily or thinking about leaving corporate life for the heady world of entrepreneurship is whether you have what it takes to be successful ... the "right stuff" in other words. Some people do, in spades. Others simply don't. If you're one of those who just don't, either resign yourself to working for someone else or cultivate in yourself the qualities that successful entrepreneurs share. Believe it or not, entrepreneurs are not just "born". Well, some, of course, seem to be natural-born entrepreneurs, but for the rest of us, the qualities of entrepreneurship can definitely be acquired by hard work and application.

1.8.3.2 COMMON ISSUES

The “common denominator” or issues faced by all entrepreneurs are planning, financing and implementation.

⇒ Planning

All entrepreneurs face the challenge of starting a new business, be it through innovation (inventing something new or doing something a different way), finding the right opportunity to get into, or buying a franchise. Whichever road you choose, it will involve serious planning.

⇒ Financing

Unless you have ready funds at your disposal, getting finance is the next major challenge and cannot be attempted until your business plan is in place. You will need to prepare funding proposals and applications for loans, venture capital, and funds from angel investors.

⇒ Implementation

This is make or break time. Many people think just getting started is the hard part and it is hard. There are various hypotheses including the idea that people full of ideas and those who implement them, are two very different breeds and it is highly unusual to find one person who can do both. More likely though, is the simple fact that implementation requires such a broad range of skills that no one person can possibly be adept at all of them.

The real challenge and skill of the entrepreneur, then, is to recognize what you do well and then appoint employees or subcontractors to do the rest. Of course, if you're running a business on a shoestring, this simply may not be possible! So be honest and objective in assessing your particular strengths and weaknesses.

The areas to think about in terms of implementation are the same as those encompassed by a broad definition of management : promotion (marketing and advertising), public relations, sales, employees, communications, legal issues, plant and equipment, risk management, disaster planning, crisis management, insurance, technology, computer systems, taxes, bookkeeping, finance, and the internet.

1.8.3.3 PERSONAL QUALITIES AND TRAITS

Equally important as the common issues shared by all entrepreneurs are the personal qualities of an entrepreneur him or herself. Although it is not necessary that you possess all of them, you should possess most :

⇒ Passion - entrepreneurs have a strong passion for their ideas or concept, so much so that their work is their play. If you don't like what you do, you won't stick it out when challenges come along, as they inevitably will.

⇒ Curiosity - entrepreneurs need to understand how things work. They ask a lot of questions. Curiosity therefore triggers innovation.

⇒ Sponges - entrepreneurs are sponges. They devour information about their industry and are always aware of new and emerging trends and technologies, not only in his own specific industry but in closely related industries. This habit of scanning their environment is a rich source of discovery of new opportunities. Entrepreneurs are always looking for new markets, applications, products or twists on an old concept.

⇒ Optimism - entrepreneurs think of problems as opportunities for improvements and new ideas.

⇒ Forward looking - entrepreneurs are never satisfied with the status quo and are always proactively carving out their future.

⇒ Careful about money - entrepreneurs are careful with money and have a firm grasp on what things cost and their value to the business. This allows them to recognize a true bargain when they see one.

⇒ Started earning at a young age - entrepreneurs commonly displayed entrepreneurial leanings as a teenager seeking out entrepreneurial activities such as babysitting, lawnmowing and lemonade stands.

⇒ Competitiveness - entrepreneurs are naturally competitive in nature and very active.

⇒ Time conscious - entrepreneurs know the value of time and how to make the best use of it. You won't find entrepreneurs spending much time on nonproductive activities. Entrepreneurs typically recognize the value of downtime and time with family and will factor these activities into their schedule.

⇒ Risk takers - entrepreneurs are not afraid of taking calculated risks. They typically trust their hunches and act on them.

⇒ Usually loners - entrepreneurs generally prefer a solitary work environment as opposed to teamwork. They are normally single type of businessman.

⇒ Professional - entrepreneurs are professional in their approach to work. They operate as they would in a corporate environment and don't allow themselves to be distracted by outside influences.

⇒ High energy - entrepreneurs have a plan and a vision and they work for it. Entrepreneurs are often health-conscious too, recognizing that the fitter they are, the better their minds work. So entrepreneurs will take time from their schedule to work out and eat well.

⇒ Flexible - entrepreneurs are nothing if not responsive to change. Although they appreciate the importance of having a plan and working that plan, they allow themselves room to react and respond to opportunities that may suddenly reveal themselves.

⇒ Nurture entrepreneurial spirit - entrepreneurs seek out and nurture the entrepreneurial spirit in their employees and reward them accordingly.

⇒ Confident goal setters - entrepreneurs are confident and set long-term goals, both

for themselves personally and their business. They view money and financial security as a measure of accomplishment and a source of peace of mind.

⇒ Persistent - entrepreneurs never give up. They persist until they succeed.

⇒ Learn from failures - entrepreneurs learn from their own failures and those of others. Failure to an entrepreneur is nothing more than an opportunity waiting to be discovered.

⇒ Self responsibility - entrepreneurs take the initiative and personal responsibility for their success or failure (which is always a merely temporary state).

⇒ Resource utilization - entrepreneurs utilize all of their available resources.

⇒ Internal locus of control - entrepreneurs don't believe in luck. They firmly believe that success and failure lies within their personal control or influence. They are known as internals, who control their destiny themselves and do not wait for outside help.

Most people believe that to be an entrepreneur, one requires a professor's intelligence, a fortune-teller's capacity to foresee the future, a rich man's bank roll, a salesman's persuasiveness, a financial talent for manipulating funds, an auditor's precision, a political leader's power and the magnetic personality of a film star. Since very few people possess even one or two of these qualities, no one believes he can be an entrepreneur. In fact, the only capacity essential for becoming an entrepreneur is a willingness to work hard.

An entrepreneur is a person who takes risk of setting up his own venture for perceived reward. He is a person who initiates the idea, formulates a plan, organizes resources and puts the plan into action to achieve his goals. Entrepreneurs have specific qualities; they have special strengths which they draw upon for their adventure into business. If you want to start and succeed in your enterprise, you are required to play different roles at different stages of your enterprise.

Some of the following questions will determine how far a person can become an effective entrepreneur :

- (1) Do you have a strong desire to be a winner ? (NEED TO ACHIEVE) : Most people dream of success and achievement, but do not take any actions towards achieving these dreams. Entrepreneurs, on the other hand, have a strong desire to achieve a higher goal and make their dreams come true. For them winning is achievement.
- (2) Do you have a quality of stick-to-it? (PERSEVERANCE) : Once committed to a goal and a course of action, entrepreneurs become absorbed in it. They are not deterred by difficulties and problems that beset any project ; they work hard until the whole project is successfully accomplished. They do not give up easily.

- (3) Do you prefer a middle way of the strategy when you have analysed a risky problem objectively and think you can solve it? (MODERATE RISK TAKER) : Entrepreneurs are not high risk-takers ; they are not gamblers. They choose a moderate risk rather than play wild speculative gamble. They love a moderate risk situation, high enough to be exciting, but with a fairly reasonable chance to win.
- (4) Are you alert to opportunities? Do you seize and convert them to your advantage? (ABILITY TO FIND AND EXPLORE OPPORTUNITY) : Entrepreneurial persons are quick to see and seize opportunities. They show an innovative turn of mind and convert difficulties into opportunities. But they are realistic too. They plan and anticipate carefully themselves to achieve their goals in realizing an opportunity.
- (5) Are you unaffected by personal likes and dislikes while approaching problems? (ANALYTICAL ABILITY) : Entrepreneurs are realistic. They have a matter of fact approach about business undertakings. They are not likely to let personal likes and dislikes stand in their way. When they require assistance, they select experts rather than friends and relatives to help them. They generally do not take an emotional attitude towards their business or a problem.
- (6) Do you find it important to know how you are doing, when you are working on a goal or a task? (USING FEEDBACK) : Entrepreneurs like to have immediate feedback of their performance. They like prompt and accurate data and it does not make any difference whether the information they get is favourable or unfavourable. In fact, they are stimulated by unfavourable news to pour more energy into attaining their objective.
- (7) Do you welcome dealing with an unfamiliar but interesting situation? (FACING UNCERTAINTY) : Achievement oriented people tend to be optimistic even in unfamiliar situations. The odds may not be clear but the circumstances may be appealing. Entrepreneurial persons in such situations see no reason why they cannot win through their abilities. They go ahead undeterred, sometimes even without guidelines and frequently make the best of whatever opportunities there are. As they begin to understand their environment they begin to calculate their chances very closely. Thus, paradoxically they present a picture of boldness in the face of the unknown and prudence in the face of the familiar. They usually win by applying their special insight and skill.
- (8) Do you have a dislike for working for others? (INDEPENDENCE): It is found that most entrepreneurs start off on their own because they do not like to work for other people. They like to be their own masters and want to be responsible for their own decisions.

- (9) Are you flexible in your decisions? (FLEXIBILITY) : Most successful people after weighting the pros and cons of a decision, tend to change if the situation so demands. They do not hesitate in revising their decisions. successful entrepreneurs are persons with open minds, not rigid.
- (10) Do you think ahead, plan your future and then work to make it come true? (PLANNER) : Most successful people tend to set a goal for themselves and plan to achieve that goal in a certain time limit.
- (11) Are you comfortable while dealing with people at all levels? (INTERPERSONAL SKILLS) : An entrepreneur is a person who, during the course of his activities, comes across many types of persons with whom he has to deal. He has to make them work for him, with him and help him to attain his objectives. Hence, he should be a person who likes working with people and who has skills of dealing with people.
- (12) Can you influence others? (MOTIVATOR) : In the course of his career, an entrepreneur will be required in many situations to influence people and make them think in his way and act accordingly. He motivates people to act.
- (13) Are you capable of working for long hours and tackling different problems at the same time? (STRESS TAKER) : As a central figure in your enterprise, you will have to cope with many situations at the same time and make right decisions which may involve a lot of physical and emotional stress. All this can be done if you have the capacity to work long hours and keep cool under a lot of tension.
- (14) Are you aware of yourself (POSITIVE SELF CONCEPT) : An achiever directs his fantasies towards the accomplishment of worthwhile goals and sets standards of excellence in what he is doing. This is based upon the awareness of his strength and weaknesses. He uses positive knowledge to support his thinking. He is rarely negative. If he has a positive self Esteem, he will be more successful.
- (15) Do you tend to think ahead? (ORIENTATION TO FUTURE) : Entrepreneurs show a high level of future orientation. They do not allow the past to obsess them. They are oriented towards present and future. "So it was, but now what to do"., this is their usual response.
- No entrepreneur has all these qualities but most of them will have many. So the first step for a person aspiring for entrepreneurship is making an inventory of the traits he possesses. This self-awareness and analysis will help define his strength and help overcome his weaknesses.

1.8.3.4 THE FUTURE OF ENTREPRENEURSHIP

As we all know, increasing numbers of people are elected to work from home

either through telecommuting or running home businesses. While this trend has commonly been attributed to the growth in the number of working women wanting to be home for their children, over half of all people now working from home are men.

Most of the studies concluded a number of factors favouring high rates of new firm formation :

- ◆ Continuing high rates of change (change creates opportunities for new firms).
- ◆ Continued growth of the service sector (the highest growth area for new firm formation)
- ◆ Increasing number of virtual corporations in which firms out source their functions, creating opportunities for entrepreneurs.
- ◆ Positive climate for small business - a general perception that small business has a positive influence on the economic well-being of the country giving entrepreneurs legitimacy and respect.
- ◆ Growth in international business opportunities.

With the traditional corporate-employment track seemingly on the decline, the trend of forming strategic alliances with other business that are closely aligned with yours or with someone who can add value to your product is emerging. In fact, futurists envision a return to extended community living with shared resources but individual living and working relationships with entrepreneurial activities being the basis of these communities. Strategic alliances are a first step along this path.

1.8.4 ROLE OF ENTREPRENEUR

Adam Smith looked upon an entrepreneur as the owner of a business enterprise to which he supplied capital. The classical economists lumped interest and profit together. It was Cantillon who separated the entrepreneur from the capitalist and recognized it as a separate factor of production having definite functions to perform in the economy.

Several theories concerning entrepreneurial functions surfaced and each theory bestowed upon the entrepreneur's one function or the other. Marshall felt that the important functions of an entrepreneur are organization and management of the productive enterprise. J.B. Say and Cantillon felt that risk-taking was the most important function. Prof. B.R. Knight conceived the dual functions of risk taking and control. Schumpeter identified the entrepreneur with innovation. A careful analysis of all these theories show that the entrepreneur has to perform one or more of the functions outlined in these theories.

An entrepreneur has to perform the following functions as a vital factor of production.

(1) RISK TAKING AND UNCERTAINTY BEARING :

The future is unpredictable. The entrepreneur has to take risks in these

circumstances. If the venture succeeds, the entrepreneur gets profits; if it does not, losses occur. Thus, taking risks forms an important entrepreneurial function. Risks are of two types - insurable and non-insurable. Non-insurable risks are the possibility of changes in the tastes and preferences of the consumer, techniques of production and so on. These non-insurable risks are called uncertainties. Uncertainty-bearing is thus an integral part of the entrepreneurial function. The entrepreneur makes use of his initiative, skill and good judgement to reduce the uncertainties of business.

(2) TAKING BUSINESS DECISIONS :

All decisions concerning business are taken by the entrepreneur. Once the entrepreneur is convinced that a particular line of production offers large prospects of profit, he decides to enter in it. He has to formulate an action plan regarding the product and the quality of the product to be produced. He has to evolve the best possible method of production which would earn him a sizeable profit. Suitable changes in the size of the business have to be effected by him. Employment of personnel, choosing the location for the production unit and everything that is needed for the development of the business have to be decided by him.

(3) MANAGERIAL FUNCTIONS :

The entrepreneur combines in him all managerial functions, though they are strictly different from the standard entrepreneurial duties. The entrepreneur arranges finance, purchases raw materials, provides the necessary infrastructure for production, supervises sales and marketing and also assumes the role of the personnel manager. The entrepreneur thus has a multi-faceted personality when he undertakes managerial functions.

(4) INNOVATION :

By far the most important function of an entrepreneur is being innovative. Here he introduces far-reaching improvements in the quantity and quality of the production line. He considers the economic viability and technical feasibility of an invention. It is this function of the entrepreneur which injects the elements of dynamism into the economic system.

Let us discuss the role of entrepreneur as an innovator.

1.8.4.2 ENTREPRENEUR AS AN INNOVATOR

The entrepreneurial function can be performed by different types of people in different economic systems. Theoretically the entrepreneur could be a planner in a socialist economy or a king in a traditional society. But in practice entrepreneurship is identified with private enterprise in a market economy. Moreover, entrepreneurs exist in every field of economic activity. We find entrepreneurs in the fields of manufacturing, distribution, trading, and in services etc. Britain has developed trading entrepreneurship, while Germany and Japan have developed industrial entrepreneurship.

Arthur H. Cole has described an entrepreneur as a decision-maker and attributed the following functions to him :

- (1) The determination of the objectives of the enterprise and the change of those objectives as conditions required or made advantageous;
- (2) The development of an organization, including efficient relations with subordinates and all employees;
- (3) Securing adequate financial resources and maintaining good relations with the existing and potential investors;
- (4) The requisition of efficient technological equipment and the revision of it as new machinery appeared;
- (5) The development of a market for the products and the devising of new products to meet or anticipate consumers's demand; and
- (6) The maintenance of good relations ' with public authorities and with the society at large. Modern writers have come to the conclusion that an entrepreneur has three broad functions ;
 - (1) Innovation.
 - (2) Risk taking and uncertainty bearing.
 - (3) Organising and managing the business so as to have leadership and control over it.

Innovation is thus the commercialization of an invention. It means in the words of Schumpeter, "doing new things or the doing of things that are already being done in a new way". It includes new processes of production, introduction of new products, creation of new markets, conquest of a new source of raw material and the establishment of a new form of industrial organization.

Risk-taking means provisions for capital in order to enable the entrepreneur to establish and run the enterprise. An important aspect of this function is that the entrepreneur has to bear the uncertainty associated with the plans of investment and expansion. Most writers feel that the greater the risk of business, the higher is the quantum of profit.

Finally, providing leadership and having complete control in the organization and management of business is a function of paramount importance. The moment the entrepreneur loses control over his business, he ceases to be an entrepreneur. Alfred Marshall recognized this as the most important function of an entrepreneur. It implies bringing together the other factors of production. All business decisions associated with the production process must be taken by the entrepreneur. Marshall says that in the initial stages of the establishment of a business, the entrepreneur may take all decisions by himself. But as the enterprise grows and the work of decision-making becomes more complex, the entrepreneur may delegate this authority to his subordinates. However, the central function of organization and

management of production should be determined by him. He shall assume the role of a leader and shall be the final judge in the conduct of business.

Besides the above mentioned functions, the entrepreneur has to perform many other activities at the later stage namely :

- ◆ Diversification of production.
- ◆ Expansion of the enterprise
- ◆ Maintaining cordial employer-employee relations.
- ◆ Tackling of labour problems
- ◆ Co-ordination with outside agencies.

The functions of an entrepreneur with reference to the underdeveloped countries include wide range of activities and has been given by Kilby:-

- ◆ Management of scarce resources.
- ◆ Dealing with public bureaucracy (licenses, taxes).
- ◆ Acquiring and overseeing assembly of the factory.
- ◆ Industrial, designing and engineering.
- ◆ Marketing of product and responding to competitors.
- ◆ Perception of market opportunities (novel or imitative).
- ◆ Financial and production management.
- ◆ Management of customers and supplies relations.
- ◆ Management of scarce resources.

1.8.4.3 ENTREPRENEUR AND ECONOMIC DEVELOPMENT

The position of the entrepreneur in modern production is like that of the director of a play. Modern economic development is closely linked with production. Modern production is highly complex. The entrepreneur directs production and he must do whatever is necessary for its success. His role in modern economic development has at least three aspects :

- (a) The entrepreneur co-ordinates the other factors of production. This involves not only assembling the factors, but also to see that the best combination of factors is made available for the production process. Co-ordination involves selection of the right type of factor), employment of each factor in the right quantity, use of the best technical devices, division of labour, reduction of waste etc.
- (b) The entrepreneur takes risks. In Hawtrey's view this is the most important function of the entrepreneur and the quantum of profit he receives is directly proportionate to the risks he takes. Risks are generally based on the anticipation of demand. Prof. R.R. Knight has gone one step forward. In his opinion risks are of two types - insurable and non-insurable. He calls non-insurable risks by the term "uncertainty". In his view uncertainty bearing is the primary function of an entrepreneur which enables him to get profit. This function has assumed great importance with the increasing complexities of modern production.

(c) Finally, the entrepreneur innovates. Innovation is different from invention. Invention is the work of the scientists. Innovation implies the commercial application of an invention. As an innovator the entrepreneur assumes the role of a pioneer and an industrial leader. Joseph Schumpeter and his followers believe that the entrepreneur is one who innovates and innovation makes the entrepreneur the hero in the drama of economic development.

Modern economists tend to agree with the view expressed by Schumpeter. Since the process of economic development is characterized by the presence of discontinuous disturbance, economists tend to agree to the view that this disturbance comes in the form of innovation. The entrepreneur can undertake any one type of the following five categories of innovation :

- ◆ The introduction of a new type of product or a new quality of a good.
- ◆ The introduction of a new method of production.
- ◆ The opening of a new market.
- ◆ The conquest of a new source of supply of raw materials.
- ◆ The carrying out of a new organisation of any industry.

The innovational activity raises the productive efficiency of the economy resulting in greater output and income. Schumpeter finds in rising productivity the secret of economic development as distinguished from economic growth. Economic growth occurs when more resources are available in the economy. But economic development is an entirely different phenomenon. It occurs when output increases as a result of entrepreneurial activity. Schumpeter therefore defines development as "the carrying out of new combinations."

The entrepreneur is the central figure in the process of development. He introduces new combination of factors thereby channelising the economy's resources along productive lines. He is not a producer, for the latter chooses any one of the available methods, the entrepreneur is constantly engaged in introducing newer and latest methods of production. The entrepreneur is not a capitalist. The capitalist provides the funds for production, the entrepreneur divests the funds to new production. The entrepreneur is thus always on the look out of making the economic system at its dynamic best. Thus, entrepreneurial activity stimulates progress and forms the mainspring of economic development.

1.8.5 IMPORTANCE OF ENTREPRENEURSHIP IN ECONOMIC GROWTH

Every country tries to achieve maximum economic development. The economic development of a country to a large extent depends on human resources. But human resources alone will not produce economic development, there must be dynamic entrepreneurs. A country may be rich in natural resources but if it lacks entrepreneurship it may not be able to utilize the resources and it may lag behind

in economic development. This is true of many developing countries. Many developing countries have realized the importance of entrepreneurs and honest attempts are now being made to motivate industrial entrepreneurs.

Entrepreneurs are action-oriented and highly motivated individuals who take risks to achieve goals. An entrepreneur is one who looks for opportunities, identifies opportunities and seizes opportunities mainly for economic gain (profit). Economic development of a country depends primarily on its entrepreneurs. Entrepreneurs seizing opportunities set-up business undertakings and industries, they bring economic transformation. They are therefore aptly called agents of change. By their actions, people have a better standard of living, get improved products and comforts and the wide disparity in income levels is gradually reduced. Besides, an economically advanced country will have more power and a confident self-image.

History provides ample evidence to entrepreneurs' ability and innovations. Many of the scientific inventions and technological developments that took place in England in the 18th century and in other countries, produced economic goods useful to man because of the efforts of entrepreneurs. In their absence, many scientific discoveries would have remained unused. It should be remembered that innovation is key to entrepreneurship.

Entrepreneurs have contributed many innovations in developing new products and in the existing products and services. All these have resulted in economic development by providing more employment, more income, export of products and services, and making available better products and services to the people.

1.8.6 SUMMARY

Entrepreneurship mainly depends on values, norms and traits that are consistent to the growth of an economy. An entrepreneur always seeks the opportunities, looks for ways and means to capitalize the newer opportunities by organising the resources. The entrepreneur is one of the most important inputs in the economic development of a country or of regions within the country. The need for a broad-based entrepreneurial class in India arises from the need to speed up the process of activating the factors of production, leading to a higher rates of economic growth, dispersal of economic activities, development of backward areas. A good entrepreneur is one who is capable of inspiring confidence in people and has the ability of motivate them to work with him in fulfilling the economic goals set by him.

1.8.7 SELF-ASSESSMENT QUESTIONS

1. Define entrepreneur, Discuss the qualities of entrepreneurs.
2. "An entrepreneur has to perform a number of functions as a vital factor of production". Discuss.

3. In the Indian context, explain the role of entrepreneurship that has fulfilled in the economic development of the country.
4. What is the future of Entrepreneurship as perceived by you? Elaborate.
5. Discuss the history of Entrepreneurial Activity.

1.8.8 REFERENCES AND SUGGESTED READINGS

- Amit, R. & Glosten, L. & Muller, E. 1993, Challenges to Theory Development in Entrepreneurship Research. *Journal of Management Studies* 30: 5, 815-833.
- Bagby, R.D. 1988. Editorial : The Winds of Change. *Entrepreneurship, Theory and Practice*. Fall pp. 5-6.
- Baumol, W.J. 1993. Formal Entrepreneurship Theory in Economics, Existence and Bounds. *Journal of Business Venturing* 8, 197-210.
- Brockhaus, R.H. The psychology of the entrepreneur. In C.A. Kent, D. Sexton, K. Vesper, *Encyclopedia of Entrepreneurship* (1982), Prentice Hall, pp. 39-57.
- Bruno, A.V. & Tyebjee, T.T. 1982. The environment for entrepreneurship. In C.A. Kent, D.
- Carland, J.W. & Hoy, F. & Boulton, W.R. & Carland, J.C. 1984. Differentiating entrepreneurs from small business owners : A conceptualization. *Academy of Management Review*, 9(2), 354-359.
- Chandler, G.N. & Jansen, E. 1992. The founder's self-assessed competence and venture performance. *Journal of Business Venturing*, 7:223-236.
- Davidsson, P. 1989, *Continued Entrepreneurship and Small Firm Growth*. Stockholm School of Economics, The Economic Research Institute.
- Drucker, P. 1985. *Innovation and Entrepreneurship ; Practice and Principles*. Heinemann, London 1985.
- Dubini, P. 1989. Which venture capital backed entrepreneurs have the best chances of succeeding. *Journal of Business Venturing*, 4, 123-132
- Fast, N. 1982. Venture capital investment and technology development. *Frontiers of Entrepreneurship Research* 1982, Babson College : Wellesley, MA, pp. 288-293.
- Gartner, W.B. & Mitchell, T.R. & Vesper, K.H. 1989. A taxonomy of new business ventures. *Journal of Business Venturing* 4, 169-186.
- Gartner, W.B. 1989. "Who is an entrepreneur?" is the wrong question. *Entrepreneurship, Theory and Practice*, Summer : 47-68.
- Jain Rajiv : Planning A Small Scale Industry.
- Khan, M.A. : Entrepreneur Development Programmes in India.
- Kirchoff, B.A. 1991. Entrepreneurship's contribution to economics. *Entrepreneurship, Theory and Practice*.

- Kirzner, I.M. 1979 *Perception, Opportunity and Profit, Studies in the Theory of Entrepreneurship*. The University of Chicago Press, Chicago.
- McClelland, D.C. & Winter, D.G. 1971. *Motivating economic achievement*. The Free Press, New York.
- Murphy, A.E. 1986. *Richard Cantillon, entrepreneur and economist*. Oxford University Press, New York.
- Pickle, H.B. & Abrahamson, R.L. 1990. *Small Business Management*. John Wiley & Sons, Inc.
- Sapienza, H.J. 1992. When do venture capitalists add value, *Journal of Business Venturing*.
- Schumpeter, J.a. (1943). *Capitalism, socialism and democracy* - 6th. ed. Counterpoint edition. Unwin Paperbacks, London 1987.

LESSON NO. 1.9

WOMEN ENTREPRENEURSHIP

1.9.0 Objective of the chapter

1.9.1 Introduction

1.9.2 Need for women entrepreneurs in India

1.9.3 Growth of women entrepreneurship in India

1.9.3.1 Numbers of Women Entrepreneurs Registered in India

1.9.4 Development Activities of Women Entrepreneurs in India

1.9.5 Problems faced by women entrepreneurs in India

1.9.6 Conclusion

1.9.7 Recommended readings

1.9.8 Exercise Questions

1.9.0 Objective of the chapter

Woman and man both have equal rights in society. The main objective of this chapter is to introduce women entrepreneurship, to study need of women entrepreneurship in India, growth and development of women entrepreneurship and various problems faced by women entrepreneurs in the country.

1.9.1 Introduction

Entrepreneurship refers to the act of setting up a new business or reviving an existing business so as to take advantages from new opportunities. An entrepreneur is a person who starts an enterprise. He searches for change and responds to it. **Women entrepreneurship** is the process in which **women** initiate a business, gather all resources, undertake risks, face challenges, provides employment to others and manages the business independently. **Women Entrepreneurship** refers to business or organization started by a **woman** or group of **women**. Women entrepreneurship is an economic activity of those women who think of a business enterprise, initiate it, organise and combine the factors of production, operate the enterprise and undertake risks and handle economic uncertainty involved in running a business enterprise. According to the Government of India "An enterprise owned and controlled by a women having a minimum financial interest of 51 per cent of the capital and giving at least 51 per cent of the employment generated by the enterprise to women."

"A woman entrepreneur can be defined as a confident, innovative and creative woman capable of achieving self economic independence individually or in collaboration, generates employment opportunities for others through initiating, establishing and running the enterprise by keeping pace with her personal, family and social life." —Kamal Singh

Entrepreneurship has been a male-dominated phenomenon from the very early age, but time has changed the situation and brought women as today's most memorable and inspirational entrepreneurs. It is estimated that women entrepreneurs presently comprise about 10% of the total number of entrepreneurs in India, with the percentage growing every year. The Tenth Five-Year Plan (2002-07) aims at empowering women through translating the recently adopted National Policy for Empowerment of Women (2001) into action and ensuring Survival, Protection and Development of women and children through rights based approach.

1.9.2 Need for women entrepreneurs in India

1. Economic Growth

The influx of more women into the workforce has led to significant economic growth and productivity. While more women have sought and got employment in greater numbers, their participation as entrepreneurs is very less. Fewer women have become entrepreneurs, meaning their potential to contribute towards innovation, job creation, and economic growth has been untapped yet. Women entrepreneurs have the unique tendency to build and maintain long-term relationships. They have more effective communicational, organizational and networking skills than their male counterparts. Moreover their fiscally conservative approach reduces the risk of failure of their organizations. Women can start new businesses that cater to a totally different market or niche than their male counterparts. Overall, more women entrepreneurs account for improved economic growth and stability within a country.

2. Narrowing Gender Gap

Even after decades of efforts toward making women equal with men socially and economically, the gap between them remains large. Women entrepreneurs inspire other women to start businesses. This leads to more job creation for women which ultimately helps in reducing the gender gap in the workforce. When women become successful in a field, the next generation of women is more likely to emulate their success. Narrowing the gender gap in employment will increase global income per person by as much as 20% by 2030. The connection between women's economic participation and growth, in particular, is compelling: a recent [McKinsey Global Institute report](#) found that minimizing the gender gap in labour force participation holds the potential to add \$12 trillion to global GDP by 2025. Government and Corporate Institutions must come together to address the gender gap issue in entrepreneurship which can begin a new era of Women-led growth.

3. Company Culture & Safety at Workplace

Creating and preserving a strong and positive company culture is the pre-requisite for the growth and long-term success of any company. Studies show that women-owned firms tend to have better company culture, high values and

transparency. They tend to have better employee relationships horizontally as well as vertically. Women have long struggled with how to maintain a work-life balance, so it's no surprise that they would run companies keeping these types of issues in mind and resolve them for their employees. They would allow time flexibility and place a focus on health and safety of women employees. Moreover, an entire new generation of young & confident women is going out to work in the numbers larger than ever before. Their safety is the biggest concern and it must be the topmost priority for any organization. 17 per cent of working women in India have experienced sexual harassment at workplace. This numbers might be higher and doesn't reflect the reality as this phenomenon is something most women (as well as companies) are reluctant to report or talk about. Many companies do not even have a grievance cell for the same. Women-led organizations are more sensitive to women safety issues. They design and implement strict anti-harassment policies and guidelines to ensure women safety. They can develop a robust and transparent reporting mechanism so that there is no stigma attached to the reporting of sexual harassment.

4. Funding/Investment to Women-led Startups

Startups are anyway a difficult game to enter in to, irrespective of your gender. However, VC/Angel funding rates for women entrepreneurs are very less than it is for men. Access to capital is crucial for sustainability and long term growth of any small business. Investors tend to have an unconscious and an unintentional bias against women entrepreneurs that they are less likely to succeed as entrepreneurs than their male counterparts and therefore less reliable an investment. This perception makes it harder for women entrepreneurs to secure funding. Very few women-led businesses get series-B or series-C funding. Things can change. When women are heading institutions which support startups, they can help and mentor more women entrepreneurs as well as use their VC and Angel networks to help them secure more investment and capital.

5. Social Change

In low GDP countries, entrepreneurship can provide a way out of poverty for women faced with few other opportunities. Woman entrepreneurship can lead to a tremendous social change, making women financially empowered and independent. That can increase levels of confidence and happiness in women, as the satisfaction of achievement and self-sufficiency can boost their self-esteem and overall well-being. Moreover, women tend to invest high amount of their income into their children's health and education which helps in building a healthier and educated youth means better future. Broadly read stories of successful women will provide encouragement to attract more women to the field and show them the way. Indian Corporate Houses need more female executives and Indian economy needs more women entrepreneurs because more diversity in the boardroom leads to a better and stronger business.

1.9.3 Growth of women entrepreneurship in India

If the society is a vehicle, both men and women are its two wheels. Contributions of both women and men are required to the activities of building a nation. India has about seven lakh villages, in which more than 70 per cent of its population lives. The labour force in the rural sector is formed by 56 per cent of the male and 33 per cent of the female. Women struggle in India for entrepreneurial freedom though more than 60 years have completed after the independence. They still face various socio-economic problems. Women entrepreneurs in India comprise a small proportion of the total entrepreneurs. The emergence of women entrepreneurs has been hampered by attitudinal constraints, social traditions and kinship system. Due to the lack of technical knowledge and little competition from men, Indian women have contributed for the most part to house hold industries. The spread of education and growing awareness among women have motivated women to enter the fields of engineering, electronics, energy and such other industries. In spite of the small number of such units, women start units for manufacturing solar cookers, TV, capacitors, electronic ancillaries, and small foundries. The growth of women entrepreneurs in the country has been accelerated by several government agencies and voluntary organization like Mahilamandals and so on. Indian women have become more career-minded, economically independent and more achievement-oriented. They would like to widen their scope of work and taste the fruit of achievement. But, now, the scenario is changing fast with modernisation, urbanisation and development of education and business. Thus, the opportunities of employment for women have increased drastically.

1.9.3.1 Numbers of Women Entrepreneurs Registered in India

Registered women entrepreneurs in India are shown in Table:

| States | Registered | Rank | No of Women Entrepreneurs | Rank | %age |
|----------------------|--------------|------|---------------------------|------|--------------|
| Tamil Nadu | 9,618 | 1 | 2930 | 2 | 30.36 |
| Uttar Pradesh | 7,980 | 2 | 3180 | 1 | 39.84 |
| Kerala | 5,487 | 3 | 2135 | 3 | 38.91 |
| Punjab | 4,791 | 4 | 1618 | 4 | 33.77 |
| Maharashtra | 4,339 | 5 | 1394 | 6 | 32.12 |
| Gujarat | 3,872 | 6 | 1538 | 5 | 39.72 |
| Karnataka | 3,822 | 7 | 1026 | 7 | 26.82 |
| Madhya Pradesh | 2,967 | 8 | 842 | 8 | 28.38 |
| Other states and UTs | 14,576 | 9 | 4185 | 9 | 28.71 |
| Total | 57452 | | 18848 | | 32.82 |
| | | | | | |

1.9.4 Development Activities of Women Entrepreneurs in India

In India, entrepreneurship for the development of women is an essential part of human resource when compared with other countries. But, the growth of women entrepreneurship is very low in India, especially in the rural areas. Moreover, women from middle class are less enthusiastic to change their role because of their fear to face the social backlash. The development is more found in the families at upper class society in urban areas. Several institutional arrangements have been made to protect and develop women entrepreneurship in India. The Nationalized Banks and State Financial Corporations advance loans to women entrepreneurs on a preferential basis. State Industrial Development Corporations and District Industries Centers give loans, subsidies and grants to small-scale women entrepreneurs. State level agencies help women entrepreneurs in preparing project reports, purchasing machinery and building and training and hiring staff. The Federation of Indian Chambers of Commerce and Industry (FICCI), FICCI Ladies Organisation (FLO), National Alliance of Young Entrepreneurs (NAYE) and other voluntary agencies lend assistance to women entrepreneurs. Under the Social Education Scheme of Community Development Programme, Mahilasangams (Women's groups) were organized and women's Industrial co-operatives were set up in 1958. Within the overall aim of promoting regional co-operation by strengthening technology transfer mechanism in the Asia-Pacific Region, the Asian and Pacific Centre for Transfer of Technology have actively been promoting development of women entrepreneurship and participation of women in the field of technology. The APCTT implements projects which have been funded by multi-and bilateral donor organisations for technical training for women and programmes for technology exposure training for trainers in spreading technology to rural women. Under the banner of "Technology sharing among grass-root women's groups in the food processing sector" the Centre organised a series of workshops and technical training programmes were organized by the centre during 1997-1998.

In addition, various government agencies are involved in the development, promotion, monitoring, evaluation and expansion of women entrepreneurship programmes. Some of them are listed here, namely Entrepreneurial Development Institute (EDI), National Small Industries Corporation Limited (NSIC), Small Industries Development Organisation (SIDO), District Industries Centre (DIC), National Level Standing Committee on Women Entrepreneurs (NLSCWE), National Research Corporation of India (NRDCI), The National Alliance of Young Entrepreneurs (NAYE), Indian Council of Women Entrepreneurs (ICWE), Federation of Indian Chambers of Commerce and Industry (FICCI), National Commission of Self Employed Women in the Informal Sector (NCSEWIS), World Association of Women Entrepreneurs

(WAVE), Associated Country Women of the World (ACWW), National Association of Women Entrepreneurs and Executives (NAWEE), The Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI), Self-Employed to Educated Unemployed Youth (SEEU), Women Development Project (WDP), Development of Women and Children in Rural Area (DWCRA), Science and Technology for Women (STW), Training of Rural Youth for Self Employment (TRYSEM), National Institute for Entrepreneurship and Small Business Development (NIESBUD). The women entrepreneurs have to approach the nearest commercial banks, institutions and co-operatives to know the different schemes and to take advantage of this programme of assistance. Thus, a positive growth in women entrepreneurship has been noticed. As more and more motivation and support are provided to them, it will definitely enhance their socio-economic status, which is a pre-requisite for the growth and development of women entrepreneurs.

1.9.5 Problems faced by women entrepreneurs in India

- 1. Family ties:** Women in India are very emotionally attached to their families. They are supposed to attend to all the domestic work, to look after the children and other members of the family. They are over burdened with family responsibilities like extra attention to husband, children and in laws which take away a lot of their time and energy. In such a situation, it will be very difficult to concentrate and run the enterprise successfully.
- 2. Male dominated society:** Even though our constitution speaks of equality between sexes, male chauvinism is still the order of the day. Women are not treated equal to men. Their entry to business requires the approval of the head of the family. Entrepreneurship has traditionally been seen as a male preserve. All these put a break in the growth of women entrepreneurs.
- 3. Lack of education:** Women in India are lagging far behind in the field of education. Most of the women (around sixty per cent of total women) are illiterate. Those who are educated are provided either less or inadequate education than their male counterpart partly due to early marriage, partly due to son's higher education and partly due to poverty. Due to lack of proper education, women entrepreneurs remain in the dark about the development of new technology, new methods of production, marketing and other governmental support which will encourage them to flourish.
- 4. Social barriers:** The traditions and customs prevalent in Indian societies towards women sometimes stand as an obstacle before them to grow and prosper. Castes and religions dominate with one another and hinder women entrepreneurs too. In rural areas, they face more social barriers. They are always seen with suspicious eyes.
- 5. Shortage of raw materials:** The scarcity of raw materials, sometimes, nor, availability of proper and adequate raw materials sounds the death-knell of the

enterprises run by women entrepreneurs. Women entrepreneurs really face a tough task in getting the required raw material and other necessary inputs for the enterprises when the prices are very high.

6. Problem of finance: Women entrepreneurs suffer a lot in raising and meeting the financial needs of the business, Bankers, creditors and financial institutes are not coming forward to provide financial assistance to women borrowers on the ground of their less credit worthiness and more chances of business failure. They also face financial problem due to blockage of funds in raw materials, work-in-progress finished goods and non-receipt of payment from customers in time.

7. Tough competitions: Usually women entrepreneurs employ low technology in the process of production. In a market where the competition is too high, they have to fight hard to survive in the market against the organised sector and their male counterpart who have vast experience and capacity to adopt advanced technology in managing enterprises.

8. High cost of production: Several factors including inefficient management contribute to the high cost of production which stands as a stumbling block before women entrepreneurs. Women entrepreneurs face technology obsolescence due to nonadoption or slow adoption to changing technology which is a major factor of high cost of production.

9. Low risk-bearing capacity: Women in India are by nature weak, shy and mild. They cannot bear the amount risk which is essential for running an enterprise. Lack of education, training and financial support from outsiders also reduce their ability to bear the risk involved in an enterprises.

10. Limited mobility: Women mobility in India is highly limited and has become a problem due to traditional values and inability to drive vehicles. Moving alone and asking for a room to stay out in the night for business purposes are still looked upon with suspicious eyes. Sometimes, younger women feel uncomfortable in dealing with men who show extra interest in them than work related aspects.

11. Lack of entrepreneurial aptitude: Lack of entrepreneurial aptitude is a matter of concern for women entrepreneurs. They have no entrepreneurial bent of mind. Even after attending various training programmes on entrepreneurship women entrepreneurs fail to tide over the risks and troubles that may come up in an organisational working.

12. Limited managerial ability: Management has become a specialised job which only efficient managers perform. Women entrepreneurs are not efficient in managerial functions like planning, organising, controlling, coordinating, staffing, directing, motivating etc. of an enterprise. Therefore, less and limited managerial ability of women has become a problem for them to run the enterprise successfully.

13. Legal formalities: Fulfilling the legal formalities required for running an enterprise becomes an upheaval task on the part of an women entrepreneur because of the prevalence of corrupt practices in government offices and procedural delays for various licenses, electricity, water and shed allotments. In such situations women entrepreneurs find it hard to concentrate on the smooth working of the enterprise.

14. Exploitation by middle men: Since women cannot run around for marketing, distribution and money collection, they have to depend on middle men for the above activities. Middle men tend to exploit them in the guise of helping. They add their own profit margin which result in less sales and lesser profit.

15. Lack of self confidence: Women entrepreneurs because of their inherent nature, lack of self-confidence which is essentially a motivating factor in running an enterprise successfully. They have to strive hard to strike a balance between managing a family and managing an enterprise. Sometimes she has to sacrifice her entrepreneurial urge in order to strike a balance between the two.

1.9.6 Conclusion

In short if we want a more prosperous and innovative economy, we can't leave half of our population behind. **Empowering women is a prerequisite for creating a good nation, when women are empowered, society with stability is assured. Empowerment of women is essential as their thoughts and their value systems lead to the development of a good family, good society and ultimately a good nation.**

1.9.7 Suggested readings

1. **Entrepreneurial development: C.B. Gupta & N.P. Srinivasam**
2. **Fundamentals of entrepreneurship: Arora Renu; Sood S.K.**
3. **Khan M.A.: Entrepreneur development programmes in India.**

1.9.8 Exercise questions

- a) Explain about women entrepreneurship and need of women entrepreneurship in India.
- b) Explain growth and development of women entrepreneurs in India.
- c) What are the various problems faced by women entrepreneurs in India?