

Importance of entrepreneurship

1. He bears the uncertainty of reward: An entrepreneur establishes a new enterprise for profit motive. But there are many uncertainties about profit and also volume of profit. He may have to wind up the enterprise due to continuous loss. So he bears the uncertainty of reward by starting a new enterprise.
2. He bears the risk of erosion of capital funds: Entrepreneur accepts responsibility of uncertainty of reward. More over any accidental circumstances may adversely affect the functioning of the enterprise. They present a picture of higher production cost and lower production output. Here he has to pay certain return to labor, land and lenders, which may erode capital funds.
3. Creation of useful goods and services for consumers: Entrepreneurs create many valuable and useful goods and services for customers and needs of society are satisfied.
4. Creation of raw materials and semi-finished goods for customers: Entrepreneurs may establish industries producing raw materials or semi-finished goods, which are useful to other industries for producing consumerable goods and services. Thus fulfils the need of large-scale industries.
5. Increases opportunity of employment: Entrepreneurs play an important role in creation of employment opportunities. A large portion of our society gets employment in industrial sectors. So he helps to solve the problem of unemployment.
6. Remarkable role in economic and industrial development of a country: Entrepreneurs establish new and new ventures and produce variety of goods and services. Hence modern needs of society are satisfied and lead to a country to rapid economic and industrial development.
7. Gives benefit of innovation to the society and nation: Entrepreneurship and innovation are directly related. Entrepreneurs continuously searches innovation and give its maximum benefits to our society and nation.
8. Establishes stability in society: Entrepreneurs do not establish enterprises in only urban areas. But also establish enterprises

in semi-urban and rural areas. In rural areas, generally tiny, cottage and small-scale industries are established, which lead to stability in our society.

9. Plays important role in balanced regional development: Entrepreneurs establish industries in all areas of the nation, which decentralize economic power and leads to balanced regional development.
10. Earning of foreign exchange by export promotion: Entrepreneurs search opportunities in international market, produce goods and services as per international demand and export their products in foreign market. In this way they help the country to earn foreign exchange.
11. Optimum utilization of national resources: Entrepreneurship is a process of shifting natural resources of lower productivity and yield into an area of higher productivity and yield. Hence natural resources can be optimally utilized.
12. Pays taxes to government: Entrepreneurs earn profit by establishing and sound managing industrial units. This profit increases periodically and pay a large amount of taxes to government.
13. Development of subsidiary industries: Due to development of entrepreneurship banking, communication, transportation, insurance, agents etc. services develop rapidly. So opportunities for development of subsidiary industries also increase.
14. Raise the living standards of society: An entrepreneur always searches for new changes, responds to them and exploits them as opportunities. In this way he produces modern and luxurious products for our society and increases welfare of the society.

Functions of entrepreneur

An entrepreneur frequently has to wear many hats. He has to perceive opportunity, plan, organize resources, and oversee production, marketing, and liaison with officials. Most importantly he has to innovate and bear risk. The main functions of an entrepreneur are as follows:

1. **Search of new ideas:** Entrepreneurship process starts with generation of new ideas to establish a business. So the first fundamental function of an entrepreneur is to initiate searching new ideas about product, service, technology, market etc. Entrepreneur initiates creative thinking and innovative thinking.
2. **Procure the factor of production:** To start an enterprise, an entrepreneur needs the factors of production – land, labor, capital and technology. So after generating new ideas of business, he has to procure factors of production.
3. **To establish an industrial enterprise:** Entrepreneur is promoter of an industrial enterprise. So here he has to select location of an enterprise and to plan about how to shift the idea of establishing enterprise into its implementation.
4. **To manage business:** Entrepreneur is also owner of a business unit. So his function is also to manage the unit. In order to manage the unit, he has to perform planning, organizing, coordinating and controlling functions. An entrepreneur has to organize men, material and other resources. With his organizational skills an entrepreneur builds an enterprise from scratch, nurtures it and makes it grow. His vision shows the seeds for a sound and vibrant organization and synergies are built in the enterprise.
5. **To develop strategies:** After starting the business unit, a number of challenges, risks, difficulties, problems tend to begin. In order to face such situations, an entrepreneur has to develop related strategies, to play tactics and to win the market share. Here by SWOT analysis if strategies are developed, there are more possibilities of being success.
6. **To assume risk of uncertainty:** An entrepreneur bears the risk of establishing an industrial enterprise. There are many uncertainties about profitable existence. He has to pay certain return on means of production but there is not certain guarantee about profit on means of production and there is also uncertainty of erosion of capital funds. According to Hozelist an entrepreneur performs the function of risk and uncertainty bearing. Every decision pertaining to development of new products, adapting

new technologies, opening up new markets involves risk. Decision-making in an environment of uncertainty requires anticipation of risk. Profit is said to be the reward for anticipating and taking such risks. However it is pertinent to mention that the entrepreneur is not a gambler, he only takes calculated risks. An entrepreneur develops the art of decision-making under conditions of uncertainty as a matter of survival.

7. To develop business: After establishing an enterprise, an entrepreneur tries to develop it periodically. For developing the business he has to increase production volume, market share, wealth and competitive share. Right strategies for developing the business leads to become market leader.
8. To take business decisions: An entrepreneur has to play an important role of decision-making. He has to take important decision about to start the business enterprises, to set objectives, to manage it and to render social services.
9. To apply innovation: The function of an entrepreneur has been recognized as a prime source of innovation. He always searches for innovation and exploits it as an opportunity. Through innovation, entrepreneur brings new product, service, process, technology to the society. According to Schumpeter, innovation is one of the most important functions of an entrepreneur. An entrepreneur uses information, knowledge and intuition to come up with new products, new methods of reducing costs of a product, improvement in design or function of a product, discovering new markets or new ways of organization of industry. Through innovation, an entrepreneur converts a material into a resource or combines existing resources into new and more productive configurations. It is the creativity of an entrepreneur that results in invention (creation of new knowledge) and innovation (application of knowledge to create new products, services or processes.)
10. To provide leadership: As an owner of the enterprise, he has to provide sound leadership to his followers. By sound leadership, followers can be directed, guided and encouraged for achieving goals of the enterprise and they put their best efforts voluntary...

- 11 To meet social responsibility: Profit is a backbone of any business. An entrepreneur establishes a business unit for profit motive. But he also renders many social responsibility, along with profit motive. He creates employment opportunities, achieves social welfare by controlling environmental pollution, satisfies various needs of society, sells goods and services at reasonable price and renders many other social responsibility.

According to Kilby in a developing country even the imitator entrepreneurs are very important and the entrepreneurial role encompasses the following:

- i. Perception of market opportunities
- ii. Gaining command over scarce resources
- iii. Purchasing inputs
- iv. Marketing the products
- v. Dealing with bureaucrats
- vi. Managing human relations within the firm
- vii. Managing customer and supplier relations
- viii. Managing finance
- ix. Managing production
- x. Acquiring and overseeing assembly of the factory
- xi. Industrial engineering
- xii. Upgrading process and product
- xiii. Introducing new production techniques and products

Theories of Entrepreneurship

The concept of entrepreneur and entrepreneurship has been investigated from economic, social, political, cultural and management viewpoints. The development of these understandings is called theories of entrepreneurship. Different thinkers have evolved the theories of entrepreneurship at different times and these theories have undergone major changes.

The history of entrepreneurial theory (Herbert and Link, 1989; Wenneckers and Thurik, 1999) identifies three schools of thought and three major periods. The schools include "...the German tradition

of von Thunen, Schumpeter and Baumol...the (neo-) classical tradition of Marshall, Knight and Schultz and...the Austrian tradition of Menger, von Mises, and Kirzner." The three periods include the original period of intellectual development up to the middle of the 20th century, the subsequent period of disinterest in entrepreneurship coinciding with the development of the formal neo-classical theory which has little room for entrepreneurship (Wenneckers and Thurik, 1999), and the last 20 years of resurgent interest. Each school of thought has contributed some useful insights to our understanding of entrepreneurship. In this regard, important theories of entrepreneurship can be summarized as below.

1. Theory of 17th century:

In the 17th century a person bearing risk of profit or loss in a fixed price with govt. contract was called entrepreneur.

2. Theory of Richard Cantillien (1725) There is a difference between entrepreneur and capital supplier:

Richard Cantillien has said that entrepreneur's bearing risk is different from one supplying capital. Capital supplier is not entrepreneur, but he is supporting element to entrepreneur. Only if entrepreneur establishes an industry by his own capital, he is also called capital supplier.

3. Theory of Beaudeau (1797) Person bearing risk and managerial functions is entrepreneur:

Beaudeau displayed functions of entrepreneur. According to him, entrepreneur is a person who is bearing risks, planning, supervising, organizing and owning the means of production from which he is earning profit or loss.

4. Theory of J.B. Say (1803) Separated profit of entrepreneur from profit of capital:

J.B. Say has talked about separating the profit of an entrepreneur from the profit of capital. Profit of entrepreneur and profit of capital both are different concepts.

5. Theory of Francis Walker (1876) Those who supply money receive interest and those who have managerial capabilities receive profit:

Francis Walker has distinguished two important differences. Those who supply capital receive interest on capital and those who have managerial capabilities receive profit from their efficiency.

6. Theory of Joseph Schumpeter (1934) Entrepreneur is an innovator:

According to Joseph Schumpeter, an entrepreneur is an innovator. The process of innovation may be in the form of -

- I. Introduction of new product
- II. Use of new raw material
- III. Opening of a new market
- IV. Use of new method of production
- V. A new form of organization.

Thus Schumpeter describes a process of creative accumulation in which R&D stimulates innovation in a feedback loop, which gives an advantage to larger firms. This led him and others to believe that larger firms would have an advantage over smaller firms in generating innovations and effecting creative destruction. From an empirical perspective there is ample evidence of the scale economies enjoyed by larger firms. Furthermore, large firms are responsible for the majority of R&D expenditures. Thus it would seem that larger firms would account for a majority of economic growth.

7. Theory of Deggan (1958) Entrepreneur is an economic man, receiving profit from innovation:

Deggan supported Joseph Schumpeter's theory. He believes that an entrepreneur is an economic man, who tries to maximize his profit from innovation.

8. Theory of David McClelland (1961) Entrepreneur is an energetic moderate risk taker:

Davis McClelland has emphasized on risk taking activity. According to him, he is not an entrepreneur who starts just routine business. But he is an entrepreneur who is moderate risk taker, learns from any failure and takes decisions in the face of uncertainty. He has explained two characteristics of an entrepreneur – First one

is that entrepreneur starts any economic activity with new method, as he is the agent of change in society. Second one is that entrepreneur takes decisions in the environment of uncertainty.

9. Theory of Peter Drucker (1964) Entrepreneurship is neither art nor science but it is a practice:

Peter Drucker have presented a new theory of entrepreneurship by stating that entrepreneurship is neither art nor science but it is a practice, based on knowledge and he recommends 'innovation'. For systematic innovation, he has discussed what to do and what not to do.

10. Theory of Albert Shapero (1980) Entrepreneur is an initiator:

Albert Shapero has shown other important elements of an entrepreneur. According to him, important elements of entrepreneur are—he takes initiatives, organizes some economic-social mechanisms and accepts risk of failure. Economic-social environment has by and large influence on development of entrepreneurship.

11. Theory of Karl Vesper (1980) Entrepreneur is seen differently by economists, psychologists, politicians and business persons:

Karl Vesper has presented different views about entrepreneurship. According to economists, entrepreneurship is an activity of earning profitability through proper co-ordination of means of production. According to psychologists, entrepreneur is an agent of change. According to socialists, the role of entrepreneur is to meet the changing needs of society.

12. Theory of Gifford Pinchot (1983) Entrepreneur is an intrapreneur:

According to Gifford Pinchot, entrepreneur is an intrapreneur with in an already established organization. He presented a new concept of intrapreneur. Expert employees are employed in an organization for managing it. If qualities of an entrepreneur are in such employees, the goals of entrepreneur who is promoter of an organization can be successfully accomplished. The qualities of entrepreneurship shown in such salaried people are called intrapreneurship.