

Chapter One

Concept of Entrepreneurship and the Entrepreneur

CONTENTS

- Entrepreneurship
- Nature of Entrepreneurship
- Essential Features of Entrepreneurship
- The Entrepreneur
- Characteristics of Entrepreneurs
- Entrepreneurial Qualities and Skills
- Functions of Entrepreneurs
- Role of Creativity and Innovation in Entrepreneurship
- Evolution of Entrepreneurship
- Ethics and the Entrepreneur
- Questions

ENTREPRENEURSHIP

Entrepreneurship as an economic concept has been a subject of thought for quite sometime. According to eminent Irish economist and author, Richard Cantillon (1680–1734), entrepreneurship plays a major role in economic activity. Joseph Schumpeter (1883–1950), the renowned economist of Austrian descent, viewed entrepreneurship as a creative process. He opined that in a way it is also a “process of creative destruction”, implying that while this process creates something new, it simultaneously replaces, rather destroys, existing but outdated ideas, products or methodologies. Many analysts suggest that the theory of economic growth focuses the attention on the specific contribution of entrepreneurship.

2 Fundamentals of Entrepreneurship

Nevertheless, there is a general recognition that entrepreneurship is a dynamic function, for it works with the aim of not only creating new useful ideas, but also exploiting such ideas for business purposes. In light of this, in recent years much emphasis is being placed on the role and relevance of entrepreneurship in business management.

However, different people interpret entrepreneurship differently, but a clear and precise definition, which will meet universal acceptance, is yet to be drawn. Perhaps, broadly speaking, the term 'entrepreneurship' may be defined as a dynamic process dedicated towards innovating, creating and marketing unique ideas, products, technologies or services for monetary rewards. Individuals aspiring to become successful entrepreneurs plan, organize and conduct this process and, for that matter, they start and develop own businesses. In so doing, these risk-takers endeavour to fulfill their personal ambitions of achieving something high.

NATURE OF ENTREPRENEURSHIP

Entrepreneurship, generally speaking, refers to the overall course of action undertaken by an owner in starting and managing his enterprise for profit. However, the term *entrepreneurship* continues to be used in different ways. One usage relates entrepreneurship to the process leading to the creation and running of any new business regardless of its size, product, service, potential or form of ownership. Another viewpoint sees entrepreneurship as being essentially concerned with developing a new idea, based on which a risk-bearing unique product, service or method is marketed by means of setting up a new independent unit or by using an already existing unit. The latter notion views entrepreneurship as the complete process involving conceptualization of an idea of what a new thing should be and eventually starting and running a venture selling the unique product or providing a service never seen or known before. Both usages, however, give prominence to the role of a devoted businessperson played by one who plans, owns, organizes and manages a concern and bears risks in expectation of good earnings.

ESSENTIAL FEATURES OF ENTREPRENEURSHIP

Entrepreneurship, in fact, is much more than simply starting and running an ordinary business. To know more about the nature of entrepreneurship, we will now discuss some of the essential features that make entrepreneurship fundamentally different from any other ordinary business.

Identification of Opportunity

In any entrepreneurial endeavour, a thorough analysis of market potential is the foremost prerequisite. This is followed by investigation of consumer

wants and needs, innovation of something unconventional and useful, assemblage of resources, strategy to face competition, and subsequently starting and running an enterprise. This is why, it is often said that entrepreneurship is a process by which people tap unutilized opportunities and fulfil needs and wants through innovations. One inclined to embark in an entrepreneurial venture for profit must first recognize a potential market opportunity. In few words, therefore, identification of an opportunity is the key to entrepreneurship.

Innovation

In the opinion of the famous economist and theorist Joseph Schumpeter, entrepreneurship is primarily concerned with the broad process through which new products or methods are created and introduced replacing conventional things or practices. As contrasted with ordinary business activity, another distinguishing feature of entrepreneurship is innovation. Innovation, as observes Schumpeter's analysis, may occur in any of the following ways: (i) introduction of a new product; (ii) use of a new method of production; (iii) opening up of a new market; (iv) use of a newly found raw material; or (v) restructuring of an organization. However, in modern times the concept of innovation stands expanded to a much wider perspective. Novel changes are being introduced in business financing, human resource management, inventory control, marketing, advertisement, packaging and various other areas. Unique service facilities are being provided in personal banking and communications. Thus useful and well paying changes in any area of vast business operations are now described as innovations.

Entrepreneurial Attitude

Development of entrepreneurship is essentially dependent on the entrepreneurial attitude, that is to say a special frame of mind marked by an independent energetic spirit to assume risks and, of course, courage to undertake something new. An individual who unsettles conventional things and introduces new combination of factors of production (natural resources, capital, labour and organization or enterprise) not only plays the role of an innovator, but also helps in the advancement of economy. Such individuals visualize new opportunities, risk their own money and fortune, and combine resources in unusual ways to innovate new products, production techniques, production devices or services. These enterprising people who as change agents play the role of innovators, mobilize resources, establish new industries, create employment opportunities and contribute to national wealth are entrepreneurs. This is why, the entrepreneur, as many economic historians emphasize, is regarded as an important figure in the process of industrial growth and socio-economic development. In essence, the entrepreneurial attitude is one of the distinctive features of entrepreneurship.

Role in Development

Entrepreneurship contributes immensely to the economic growth and thereby plays a vital role in the development process. It sows the seeds of development and that, in turn, facilitates the growth and spread of entrepreneurship. As society moves gradually from underdevelopment to the phase of development, market opportunities widen and individuals acquire more finance, purchasing power, skills, abilities and motives. As a result, the social and economic environments tend to become more conducive to the growth as also further expansion of entrepreneurship. Putting more simply, over a period of time the cumulative effect of development helps to generate increasing entrepreneurial activities.

Leadership

Ordinary business deals with directing production, sales and day-to-day operation in line with the conventional practices. Generally speaking, an ordinary businessperson playing the role of a capitalist provides finance for the sake of ownership and control, but does not assume the innovatory role to the extent an entrepreneur would do. Contrarily, entrepreneurship primarily cares about the introduction of something new and of course remunerative. In this task, unlike an ordinary businessperson, the entrepreneur assumes the dual role of innovator-cum-capitalist. The essence of entrepreneurship is to utilize an enterprise's capability to pursue a goal-oriented change for something unconventional but rewarding. And it is in this context that entrepreneurial mission requires a cunning leadership to direct effective use of the available resources.

Small Business

Many determined and daring individuals embrace entrepreneurship as the means to make a self-employed profitable career. Through entrepreneurship, they pursue their unique ideas and personal goals to achieve success, wealth, power and fame independently. This is why very often people equate entrepreneurship with the conduct of small business enterprises.

Large Business

Many are of the opinion that the concept of entrepreneurship is more relevant to the act of managing big organizations. Those who run large corporate houses recognize that to enable them not only to survive but also advance with greater prosperity in a highly competitive market they must work continuously, so that they may introduce newer ideas, things or adopt new production methods. And since they are better equipped financially and otherwise to make the best of the available resources, they take full advantage of the changing market opportunities from time to time.

Conducive Environment

At times market conditions may be more or less helpful to ordinary businesses. Yet, normally a variety of complex problems, including high risks, uncertain earnings, unavailable capital, high interest rates, cumbersome paper work and endless rules and regulations often lead to lack of interest in independent small businesses. In such situations, it becomes quite necessary to encourage enterprising individuals to take active interest in entrepreneurial efforts so as to maintain the growth of entrepreneurship. This calls for a conducive environment and purposeful inducements to entrepreneurs. Some of the crucial factors that may create an environment favourable for sustained growth of private entrepreneurship are inspiring national policy on innovations; incentives for creative ideas; intellectual property rights; ample technical and communication infrastructure; organizational framework for creativity; non-expensive loan capital; larger product market; cordial employer-employee relations; business-oriented educational system; hassle-free procedures; minimum bureaucratic control; social order; rule of law; and political stability.

THE ENTREPRENEUR

The word *entrepreneur* in English originated from the French word '*entreprendre*', meaning 'to undertake.' The Lexicon Webster Dictionary (1971) explains that the term *entrepreneur* is applicable to 'one who organizes, manages and assumes the risks of a business or enterprise.' The Oxford English Dictionary (1978) describes entrepreneur as 'one who undertakes; a manager, controller; champion.' The New Encyclopaedia Britannica (1979) elucidates that entrepreneur is an individual responsible for operation of a business, including choice of a product, mobilization of necessary capital, decisions on product prices and quantities, employment of labour and expansion or reduction of the productive facilities. The word *entrepreneur*, states the BBC English Dictionary (1993), refers to 'a person who sets up business.'

In the opinion of Irish economist Richard Cantillon (1680-1734), entrepreneur is someone who takes the risks of running an enterprise by paying certain price for securing and using resources for a product and reselling it at an uncertain price. According to Adam Smith (1723-1790), the famous Scottish moral philosopher and classical economist of the 18th century, entrepreneur is an individual who can visualize the market needs for goods and services and exploit that opportunity by starting an enterprise or business for profit. Economist R.T. Ely says in his work entitled 'Political Economy', "We have been obliged to resort to the French language for a word to designate the person who organizes and directs the productive factors, and we call such a one an Entrepreneur."

F. Livingston, an economic analyst, writes in his 'Trade Cycle' (1922) that "In modern times the entrepreneur assumes many forms. It may be a private businessman, a partnership, a joint stock company, a cooperative society, a municipality or a similar body." The term *entrepreneur*, in Livingston's view, should be applicable to an individual or a group of individuals whether engaged in any business for profit or not. In the English translation of 'The Theory of Economic Development' (1934) authored by eminent economist Joseph Schumpeter (1883-1950), an entrepreneur is characterized as "an innovator playing the role of a dynamic businessman adding material growth to economic development." In the words of author David Holt, "The term entrepreneur may be properly applied to those who incubate new ideas, start enterprises based on those ideas and provide added value to society based on their independent initiative."

Obviously, a comprehensive and unanimously acceptable definition of the word *entrepreneur* is yet to be adapted. In spite of that, nowadays this much too familiar term *entrepreneur* has become a synonym for another English word *enterpriser*, which simply means one who undertakes an enterprise. However, combining some of the salient characteristics or traits, it may be said that *the term entrepreneur specifies precisely a dynamic individual who has creative talents, takes initiative, assembles necessary resources, risks own money and fortune, undertakes a new venture, introduces in the market something new and useful, and who is eventually rewarded with profit or loss.*

Part-time Entrepreneur

Part-time entrepreneurs are individuals who create and run own enterprises, though they work elsewhere for others and from whom they get regular salaries. When they are free from their duty hours, these persons engage themselves in entrepreneurial business that they own, grow and control independently. Put simply, running this kind of a business may be regarded as a subordinate occupation in addition to one's engagement in a salaried job elsewhere.

The businesses managed by part-time entrepreneurs are mostly home-based tiny or cottage industries. Many part-time business persons enjoy the benefits of secure jobs and, for that matter, they are assured of certain pay-packets and facilities from their employers at regular intervals. That could be one of the major reasons why the risks involved in tiny part-time ventures, having somewhat low investments, are usually not of much consequence to these owner-operators. However, if and when these businesses grow and prosper, their owners tend to realize the need for themselves to devote more time to their own firms rather than work for someone else on fixed salaries. Many part-time business owners may be too eager to wait and see whether and how far their ventures could achieve success. Should their products—physical products or service products—show the ability to create sizable demand in the market and thus in case their efforts eventually succeed, some of these people may be inclined to

leave salaried jobs and instead become self-employed for full time in their own enterprises. In other words, many of these people would be willing to wait and subsequently become full-time entrepreneurs.

Serial Entrepreneur

Serial entrepreneurs are individuals who do their utmost and eventually establish, develop and expand own enterprises, but before long they sell those to others for profit. They again launch and build new ventures only to sell those to others. These entrepreneurs repeat the same practice at intervals and their single common goal is to make substantial capital gains.

Social Entrepreneur

Social entrepreneurs are business persons who not only contribute own expertise, skill and money, but also risk own future to form, raise, manage and grow their enterprises. While running own ventures, primarily with the aim of deriving monetary rewards for themselves, these entrepreneurs additionally work toward providing services for the betterment of the environment and the society at large, and hence the name *social entrepreneurs*. In other words, their business practices are designed to earn reasonable profits and, while so doing, work for promotion of social welfare.

CHARACTERISTICS OF ENTREPRENEURS

The ultimate success in any entrepreneurial endeavour depends on the personality, that is to say the composite characteristics, of the entrepreneur. The entrepreneurial personality denotes the totality of the entrepreneur's individual character traits, including attitudes, habits, emotional tendencies and behavioural patterns. In fact, certain extraordinary personal traits not only constitute entrepreneurs, but also serve to identify them from others.

Entrepreneurs may belong to various socio-economic levels of the society, but their certain common characteristics separate these individuals into a distinct class. The peculiar traits that these people commonly possess are part of their essential nature. For instance, entrepreneurs are energetic and hardworking, and are keen to assume responsibility. These people are inquisitive and foresighted, and are alert to grab any promising opportunity. They usually have sound health, strong desire for money, stirring self-confidence and determination to overcome all obstacles. Entrepreneurs are inspired by a combination of varied ambitions. They are ambitious of earning from own business or profession rather than working for someone on a fixed salary; getting higher monetary returns; translating own creative ability into a real business; choosing and freely pursuing own ideas; devoting themselves to sacred or serious causes or ideas; satisfying personal