
Unit - 1: Entrepreneurship: An Introduction

Structure of Unit:

- 1.0 Objectives
- 1.1 Introduction
- 1.2 What is Entrepreneurship?
- 1.3 Tools of Entrepreneurship
- 1.4 Nature and Characteristics of Entrepreneurship
- 1.5 Why Entrepreneurship?
- 1.6 Factors Affecting Entrepreneurship
- 1.7 Entrepreneurship and Economic Development
- 1.8 Barriers to Entrepreneurship
- 1.9 The Future of Entrepreneurship
- 1.10 Summary
- 1.11 Self Assessment Questions
- 1.12 Reference Books

1.0 Objectives

After completing this unit, you will be able to:

- Understand and define Entrepreneurship.
- Differentiate between creativity and innovation.
- Explain the process of creativity.
- Describe how innovation is important as a dimension of entrepreneurship.
- Focus on various features of entrepreneurship.
- Know that how entrepreneurship plays an importance role in economic development.
- Point out various factors affecting entrepreneurship.
- Study and analyze the barriers in the growth of entrepreneurship.

1.1 Introduction

Entrepreneurial activity is increasing throughout the world. In India too, there has been a significant change in the mindset of the society. There is no doubt that entrepreneurs and entrepreneurship are playing important roles in today's global business environment. So what is entrepreneurship? And who are entrepreneurs? These are the main topics we are going to explore in upcoming units.

The concept of entrepreneurship is a complex phenomenon. Broadly, it relates to the entrepreneur, his vision and its implementation. Entrepreneurship refers to a process of action an entrepreneur (person) and it is a creative and innovative response to the business environment. It promotes capital formation and creates wealth, and it has the thrill of risk, change, challenge and growth. Entrepreneurship extends beyond a conventional business and economic perspective.

Entrepreneurship is a composite skill, which include imagination, readiness to take risks, ability to bring together and put to user other factors of production, capital, labour, land, as also intangible factors such as the ability to mobilize scientific and technologic advances. One of the qualities of entrepreneurship is the ability to discover an investment opportunity and to organize an enterprise, thereby contributing to real economic growth. It involves taking of risks and making the necessary investments under conditions of uncertainty and innovating, planning and taking decisions.

The positive impact of entrepreneurial firms is seen throughout the economy and the society. Entrepreneurial firms create jobs, contribute to economic growth they reshape the business ecosystem, create an environment where they play a major role in introducing innovations, commercializing new technologies, opening new market, and creating value by combining resources in exciting new ways.

In India various social changes are taking place like, increase in literacy levels, greater consumer awareness, enhanced media penetration, and basic changes in family structure. These changes are bound to result in a higher level of entrepreneurial activity in future. So whether you want to be the next Michael Dell, Bill Gates, or Ambani brothers, or whether you just want to achieve your own personal dreams, understanding entrepreneurship is an important first step!

1.2 What is Entrepreneurship?

Wherever you turn these days, you will come across the term entrepreneur or entrepreneurship. Pick up a current newspaper or magazine or turn on TV news broadcast. Or log onto web sites there is a huge chance that you'll find at least one story (and probably many more) about an entrepreneur or an entrepreneurial business. Entrepreneurship is a popular topic these days! So it is necessary to know what it is. Let's try to answer this by looking at how entrepreneurship is defined.

Defining Entrepreneurship:

Defining entrepreneurship might seem simple, but it isn't! There are about as many definitions of entrepreneurship. Everyone seems to have his or her own views about what it is and in the same way they have defined it. Let's look at some of the various ways in which entrepreneurship has been defined.

“Entrepreneurship is the propensity of mind to take calculated risks with confidence to achieve a pre-determined business or industrial objective. In substance, it is the risk-taking ability of the individual, broadly coupled with correct decision-making.”

In another view “Entrepreneurship refers to an action process of entrepreneur towards establishing an enterprise. It is a creative and innovative process and adapting response to environment. This concept can be seen in Figure 1.1

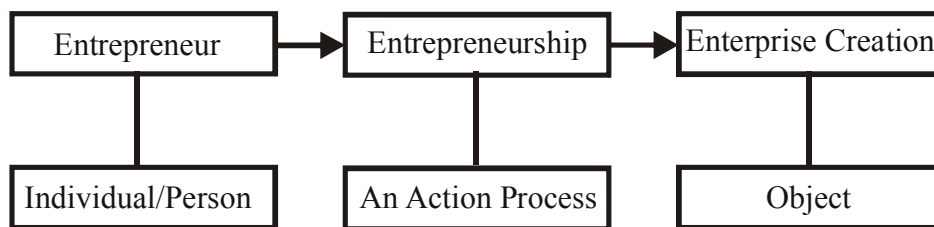


Figure 1.1 : Concept of Entrepreneurship

Entrepreneurship has long been described by researchers and writers with terms such as new, innovative, flexible, dynamic, creative, and risk-taking. Many authors have said that identifying and pursuing opportunities are an important part of entrepreneurship.

According to Frank Knight, “It involves a specialized group or persons who bear ‘risks’ and meet the uncertainty”.

According to Musselman and Jackson, “Entrepreneurship is the investing and risking of time, money and effort to start a business and make it successful.”

In the words of B. Higgins, “Entrepreneurship is meant the function of seeking investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw materials, finding site, introducing a new technique, discovering new sources of raw materials and selecting top managers for day to day operations of the enterprise.” This definition highlights risk-taking, innovating and resource organizing aspects of entrepreneurship.

According to Franklin Lindsay, “Entrepreneurship is defined as anticipating the future requirements of society and successfully meeting these needs with new, creative and imaginative combinations of resources”.

According to H. Cole, “Entrepreneurship is the purposeful activities of an individuals or a group of associated individuals undertaken to initiate, maintain and aggrandize profit by production or distribution of economic goods and services”. This definition states that entrepreneurship is goal-oriented process involving production or distribution of products and goods. It may be undertaken by person or by group of persons.

According to V.R. Gaikaward, “It connotes innovativeness, an urge to take risk in face of uncertainties, and an intuition i.e., a capacity of seeing things in a way which afterwards prove to be true”.

In a another view “Entrepreneurship is the process of bringing together creative and innovative ideas and actions with the management and organizational skills necessary to mobilize the appropriate people, money, and operating resources to meet an identifiable need and create wealth in the process.”

According to Richma and Copen, “Entrepreneurship implies more creative, external or open systems orientation. It involves risk-bearing and relatively dynamic leadership.”

Schumpeter defines, “Entrepreneurship is an innovative function. It is a leadership rather than an ownership.” Other authors have said that entrepreneurship involves the creation of value, the process of starting or growing a new profit-making business, the process of providing a new product or service, and the intentional creation of value through organization by an individual contributor or a small group of partners.

According to Rao and Mehta, “Entrepreneurship can be described as creative and innovative response to the environment”.

According to John Kao, “Entrepreneurship is the attempts to create values recognition of business opportunity, the management of risk-taking appropriate to the opportunity and through the communicative and management skills to mobilize human financial and material resources necessarily to bring a project to fruition.” This definition recognizes that entrepreneurship involves the fusion of capital technology and human talent to complete a project successfully and with reasonable degree of risk.

According to Howard W. Johnson, “Entrepreneurship is a composite of three basic elements-invention, innovation and adaptation”.

In the words of W.N. Loucks, “Entrepreneurship is a mixture of willingness to take risks, a desire for income and prestige, the urge for self-expression, creativeness, and independence with a dash of the gambling spirit and possibly additional subtle psychic components”.

John J.Kao has developed a conceptual model of entrepreneurship. This model is presented in Figure 1.2 on the next page.

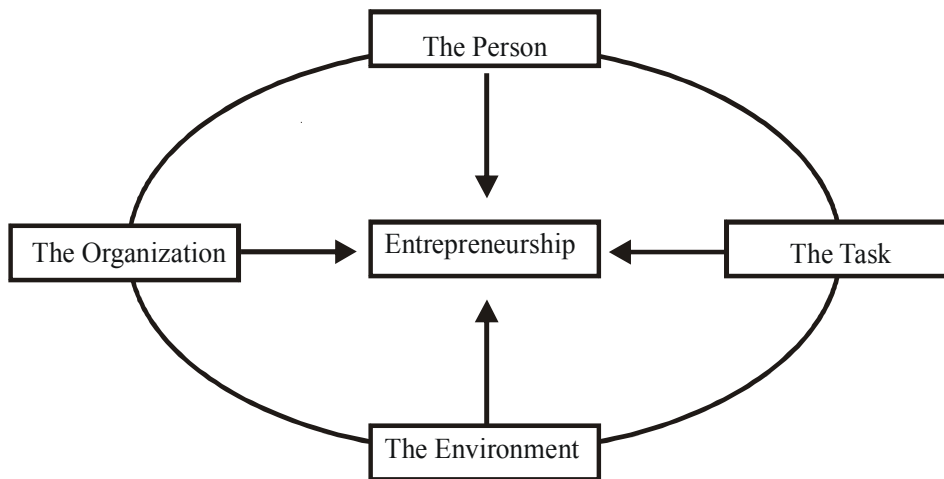


Figure 1.2 : A Conceptual Model of Entrepreneurship

According to Kao, the most successful entrepreneur is one who adapts himself to the changing needs of the environment and makes it hospitable for the growth of his business enterprise. This ECO (Entrepreneurship, creativity ad organization) analysis frame work developed and conceptualized by John J. Kao contributes a great deal to the emergence as well as sustenance of entrepreneurship and entrepreneurial talent in the prevailing business environment.

According Peter Drucker, “Entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed what constitutes knowledge in practice is largely defined by the ends; that is, by the practice. Let’s look closer at these common themes so we can begin to better understand what entrepreneurship is.

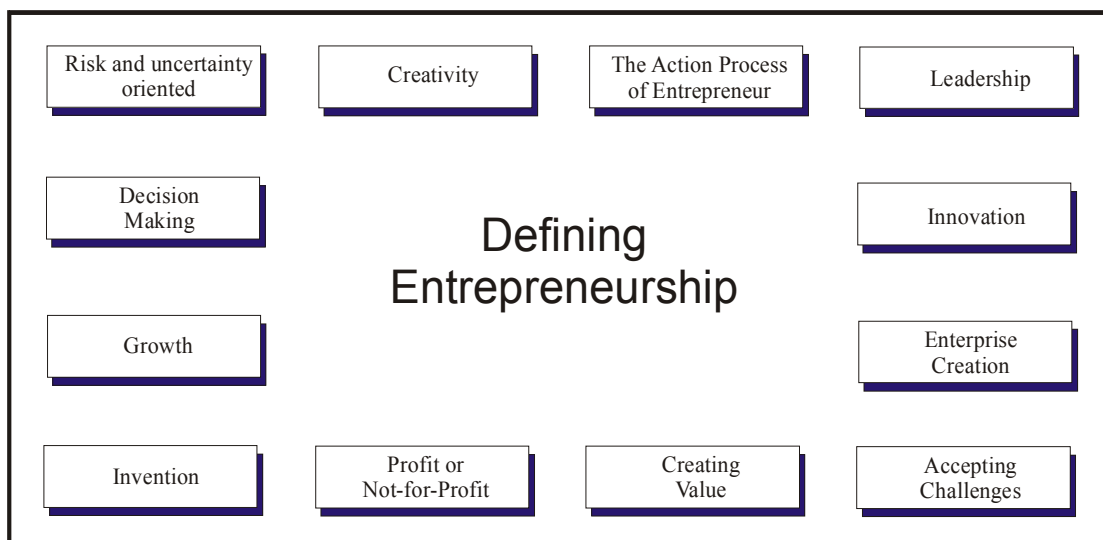


Figure 1.3: Common Themes in Definitions of Entrepreneurship

Thus entrepreneurship is a complex phenomenon. “Some think of entrepreneurs primarily as innovators, some chiefly as managers of enterprise, some as bearers of risks and others place major emphasis on their function as mobilisers and allocators of capital.”

1.3 Tools of Entrepreneurship

Entrepreneurship was defined as the process of use of innovation to exploit or create change and opportunity for the purpose of making profit. Change creates opportunity and entrepreneurship create value by exploiting

or creating change, for example in technology, materials, prices or demographic. Entrepreneurial secret for creating value is creativity and innovation.

Entrepreneurship is the result of a disciplined, systematic process of applying creativity and innovation to needs and opportunities in the marketplace. It involves applying exposed strategies to new ideas and new insights to create a product or a service that satisfies customers' needs or solves their problems.

The terms creativity and innovation are often used to mean the same thing, but each has a unique connotation. **Creativity is** "the ability to bring something new into existence." This definition emphasizes the "ability," not the "activity," of bringing something new into existence. A person may therefore conceive of something new and envision how it will be useful, but not necessarily take the necessary action to make it a reality. **Innovation** is the process of doing new things. This distinction is important. Simply having a great new idea is not enough; transforming the idea into a tangible product, service or business venture is the essential next step. Innovation, therefore, is the transformation of creative ideas into useful applications, but creativity is a prerequisite to innovation. Entrepreneurship requires business owners to be bold enough to try their new ideas, flexible enough to throw aside those that do not work, and wise enough to learn about what will work based on their observations of what did not. Entrepreneurs develop new ideas and, from their ideas, establish new enterprises that add value to society. Creative thinking has become a core business skill, and entrepreneurs lead the way in developing and applying that skill. In fact, creativity and innovation often lie at the heart of small companies' ability to compete successfully with their larger rival.

According to Peter Drucker, "Admittedly, all new small businesses have many factors in common. But to entrepreneurial, an enterprise has to have special characteristics over and above being new and small. Indeed, entrepreneurs are a minority among new businesses. They create something new, something different; they change on transmute values. A recent study by the Small Business Administration found that small firms produce more economically and technically important innovations than larger firms. Millions of people come up with creative ideas for new or different products and services; most of them, however, never do anything with them. Entrepreneurs are people who connect their creative ideas with the purposeful action and structure of a business. Thus, successful entrepreneurship is a constant process that relies on creativity, innovation, and application in the marketplace.

Creativity – A necessity for Survival: In this fiercely competitive, global world, creativity is not only an important source for building a competitive advantage, but it is also a necessity for survival. When developing creative solutions to modern problems, entrepreneurs must go beyond merely relying on what has worked in the past. Ideas usually evolve through a creative process whereby imaginative people germinate ideas, nurture them, and develop them successfully. Various labels have been applied to stages in the creative process, but most social scientists agree on five stages. A model of the entrepreneur's creative process is shown in Figure 1.4.

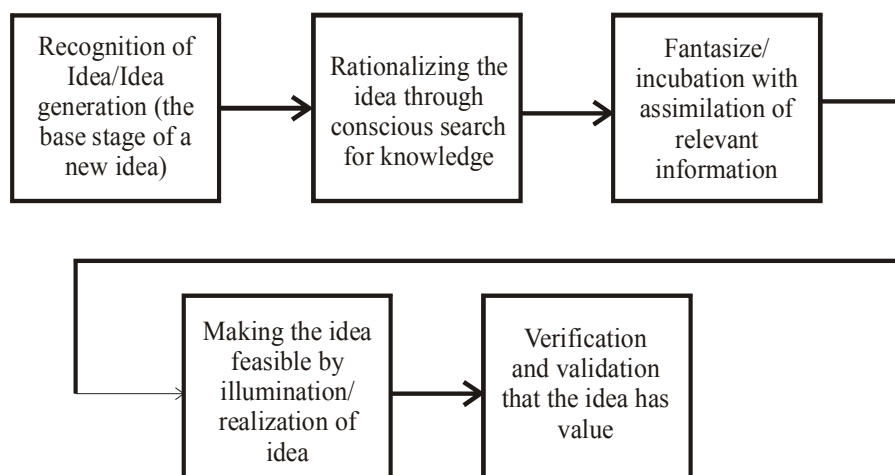


Figure 1.4 : The Creative Process

In each stage, a creative individual behaves differently to move an idea from the seed stage of germination to verification, and behavior varies greatly among individuals and their ideas.

Bolton and Thompson (2000) associate invention closely with creativity but link it with entrepreneurship if the invention is to become a commercial opportunity to be exploited. ‘Creativity is the starting point whether it is associated with invention or opportunity spotting. This creativity is turned to practical reality (a product, for example) through innovation. Entrepreneurship then sets that innovation in the context of an enterprise (the actual business), which is something of recognized value.’ Creativity and innovation need the entrepreneurial context to become a business reality - supported by a certain mix of talents and temperaments and based on appropriate knowledge and skills.

Creativity	High	B The Struggler	A The Innovator
	Low	D The Stagnator	C The Copier
		Low	High
		Entrepreneurship	

Figure 1.5 : Creativity and Entrepreneurship

The matrix in Figure 1.5 shows the relationship between creativity and the entrepreneurship. Only in quadrant A is there a, winning combination, of creativity and entrepreneurship. In quadrant B there is a firm struggling with too many wasted ideas. It lacks an entrepreneur with the ability both to see the commercial application of the idea and to exploit it. In quadrant C there is a firm that lacks creativity but can at least copy and perhaps improve on creativity coming from other firms if they have a commercial application. Firms in quadrant D lack creativity and entrepreneurship are certain never to grow and indeed their survival may be questioned.

Innovation and Entrepreneurship

If creativity is the seed that inspires entrepreneurship, innovation is the process of entrepreneurship. This was Schumpeter’s conclusion when he wrote about the economic foundations of free enterprise and entrepreneurship. According to him innovation does not happen as a random event. Central to the process is the entrepreneur. It is they who introduce and then exploit the new innovations. For Schumpeter, ‘the entrepreneur initiates change and generates new opportunities. Until imitators force prices and costs into conformity, the innovator is able to reap profits and disturb equilibrium’. Sometimes innovation involves generating something from nothing. However, innovation is more likely to result from elaborating on the present, from putting old things together in new ways, or from taking something away to create something simpler or better.

Peter Drucker believes that innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or a different service. -It is capable of being presented as a discipline, capable of being learned and capable of being practiced. Entrepreneurs need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation. And they need to know and to apply the principles of successful innovation.

Drucker, therefore, believes innovation can be practiced systematically. Firms -that practice innovation systematically search for change then carefully evaluate its potential for an economic or social return. Change provides the opportunity for innovation to make an economic return.

Mintzberg (1983) defines innovation as ‘the means to break away from established patterns’, in other words doing things really differently. Therefore, simply introducing a new product or service that has customer’s willing to buy it, is not necessarily innovation. Innovations have to break the mould of how things are done. To really -innovate Mintzberg says that ‘one engages in divergent thinking aimed at innovation; the other is convergent thinking aimed at perfection’.

The innovation can, of course, be of varying degrees of uniqueness. Most innovations introduced to the market are ordinary innovations, that is, with little uniqueness or technology. As expected, there are fewer technological innovations and breakthrough innovations with the number of actual innovations decreasing as the technology involved increases. Regardless of its level of uniqueness or technology, each innovation (particularly the latter two types) evolves into and develops toward commercialization through one of three mechanisms: the government, intrapreneurship, or entre-preneurship.

Innovation means “doing new things or the doing of things that is already being done in a new way.” It includes new processes of production, introduction of new products, and creation of new markets, discovery of a new and better form of industrial organization.

Earlier, we defined innovation as the process of doing new things. It is important to recognize the innovation more focus on action not conceiving new ideas only. When people have passed through the Realization and Validation stages of creativity process, they may have become inventors, but they are not yet innovators. The difference between creativity and innovation is shown in Figure 1.6

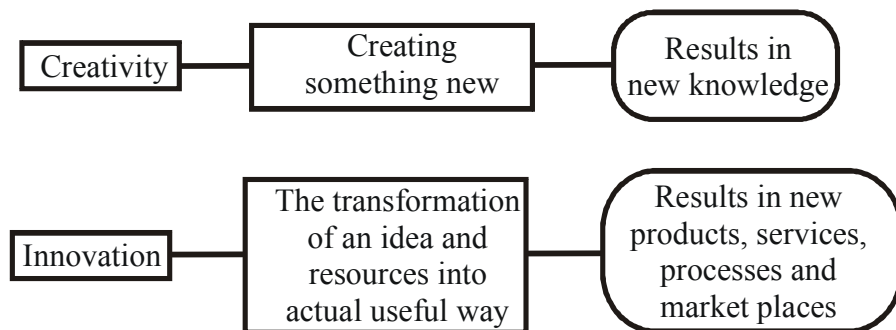


Figure 1.6: Invention Versus Innovation

To innovate effectively, therefore, requires insight - into customers and markets, into what is possible and what is not, and into how to make things happen. It is also helped by good luck. What is more, innovation may be a -necessary condition for establishing a growth

business, but it is not a sufficient condition. To exploit an innovation successfully requires strength of personal character, managerial ability and often money, which bring us back to the central role of the entrepreneur.

1.4 Nature and Characteristics of Entrepreneurship

The main characteristics of entrepreneurship are given below:

- 1. Economic Activity:** Entrepreneurship is primarily an economic activity because it involves the creation and operation of an enterprise. It is basically concerned with the production and distribution of goods and services and optimally utilizes the resource towards productive use.

2. **Entrepreneurship Involves Innovation:** Entrepreneurship involves changing, revolutionizing, transforming, and introducing new approaches. Entrepreneurship is an innovative function as it involves doing things in a new and better way. Innovation may take several forms, such as a new product, a new source of raw material a new market, a new method of -production, not yet applied in a particular branch or, manufacturing etc. Drucker says, “Innovation is the specific instrument of entrepreneurship”. Entrepreneur is a change agent.
3. **Goal-oriented Activity:** The entrepreneur who creates and operates enterprises seeks to earn profits through satisfaction of needs of consumers; hence, entrepreneurship is a goal-oriented activity. Entrepreneurship emphasizes results, achievements and targets achieved. It is work done not imaginary plans or paper decisions. Hence entrepreneurship is a goal oriented activity.
4. **Value Creation:** Next, we find that the process of creating value is a characteristic in describing entrepreneurship. Through entrepreneurship, new products, services, transactions, approaches, resources, technologies, and markets are created that contribute some value to a community or marketplace. We can also see value created when, through entrepreneurship, resources are transformed into outputs such as products or services. During this transformation process, value is created because the entrepreneur is fashioning something worthwhile and useful. Drucker says, “Until entrepreneurial act, every plant is a seed and every mineral just another rock”.
5. **Enterprise Creation:** The next characteristic of entrepreneurship is enterprise creation. In order to pursue the perceived opportunities for innovation and to create value, there must be organized efforts and actions. Someone must take the initiative to do something – take action to get the entrepreneurial venture up and running. Entrepreneurship is a creative response to changes in the environment. It involves innovation or introduction of something new or improved. An entrepreneur is an agent to effect change.
6. **A Function of Risk Bearing:** Risk is an inherent and inseparable element of entrepreneurship. An entrepreneur works under uncertainties and he assumes the uncertainty of future. In the pursuit of profit, there is possibility of loss also.
7. **Entrepreneurship Implies Growth:** The next characteristic in entrepreneurship is growth. One major difference between entrepreneurial ventures and other small businesses is the emphasis on growth. Entrepreneurship is about growing a business and pursu-ing opportunities as they arise. It’s not about standing still or being content to stay in one market or with one product.
8. **Managerial Skill and Leadership Function:** Managerial skill and leadership are the most important facets of entrepreneurship. An entrepreneur must have the ability to lead and manage. He provides direction, create work culture, and build teamwork and cohesiveness among employees.
9. **Recognition that it is a process:** The characteristics commonly found in entrepreneurship is the recognition that it is a process, very simply, is a set of ongoing decisions and actions. Entrepreneurship is not a one-time phenomenon; it occurs over time. It involves a series of decisions and actions from initial start-up to managing the entrepreneurial venture.
10. **Gap Filling Function:** The gap between human needs and the available products and services filled by entrepreneurship. An entrepreneur determines the needs of people and combines resources to produce goods and services of requirements. He introduces new products and

services, new methods of production and distribution, new sources of inputs and new markets for this purpose.

11. **Dynamic Process:** Entrepreneurship is a dynamic function. Entrepreneur thrives on changes in the environment, which bring useful opportunities for business. An entrepreneur deals proactively with changing markets -and environment. He looks at the changes as the source of market advantages, not as a problem. Uncertainties are market opportunities for him. He capitalizes on fleeting market-anomalies.
12. **Uniqueness:** Other characteristic found in entrepreneurship is that of uniqueness. Entrepreneurship involves new combinations and new approaches with which entrepreneurs are willing to experiment. Through Entrepreneurship unique products are created and unique approaches are tried. Entrepreneurship isn't merely imitating what others have done. It's doing something new, something untested and untried – something unique.
13. **Organizing Function:** It is the ability to bring together productive resources of society. Entrepreneur coordinates and control the efforts of all the persons engaged in his enterprises. He harnesses land, labour, capital and other resources of for the benefits of mankind. Therefore, an entrepreneur is called as an organization builder.
14. **Essential in Every Activity:** Entrepreneurship is required in all types of businesses – small or big, trading or manufacturing or service industry. It is essential for every business to exist and grow. Drucker says, “Entrepreneurship is by no means confined solely to economic institutions.”
15. **Knowledge-based Practice:** Drucker writes, “Entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. He uses his experiences for high achievements. The enterprising quality is generated after a long practice of risk-bearing behaviour.”
16. Another Characteristics of entrepreneurship is a **recognition that entrepreneurship can take place in both profit and not-for-profit environments.** Although we tend to assume that entrepreneurial activity is geared at making a profit (and we agree that much of it is), entrepreneurship also occurs in social service agencies, in community arts organizations, or in other types of not-for-profit settings.
17. **Entrepreneurship and Management:** Management is the agent through which all entrepreneurial decisions and plans are implemented. The entrepreneur brings new changes and improvements through management. To survive and win, the managers must become entrepreneurial in their approach and tasks.
18. **Other Characteristics :**
 - (1) It relates to updating of knowledge relating to entrepreneurship promotion on a regular basis.
 - (2) It aims at development of skills ad capabilities in identifying latent entrepreneurial traits of entrepreneurs.
 - (3) It is a means of rapid economic development which is likely to result in creation of gainful employment in society.
 - (4) It believes in the fact that entrepreneurs are not born, they can be created. In the light of this, large numbers of Entrepreneurship Development Programmes are conducted to promote entrepreneurship in the country.
 - (5) It optimizes the use of resources by arriving at the most productive combination that will provide the society the need goods and services.

Thus, entrepreneurship is multi-dimensional concept. It is both the science as well as art. But is more an art than science as there are very few ground rules or principles that can be used to create and run business enterprises in a fast changing and heterogeneous environment.

1.5 Why Entrepreneurship?

Entrepreneurship is, and continues to be, important to every sector in India and in other global economies. Entrepreneurship contributes to economic and social development of a country. Operating an enterprise, wealth creation, making innovative decisions or managing an organization, all have the thrill of risk, challenges and profitable opportunities.

Entrepreneurial firms are not just money-making ventures for their promoters. The positive impact of entrepreneurial firms is seen throughout the economy and society. A vast majority of this high-impact firms are fast-growing companies. David Birch has differentiated these firms by calling them gazelles. He defines a gazelle as a business establishment with at least 20 per cent growth every year.

Entrepreneurship has many functions to perform and roles to play in every type of economy. Entrepreneurship is the life blood of any economy and it applies more to a developing economy like India. It influences a number of areas such as innovation, job creation, career alternatives etc. The contribution of entrepreneurship lies in the following areas:

1. **Innovation:** Innovating is a process of creating, changing, experimenting, transforming and revolutionizing. Innovation is one of the key distinguishing characteristics of entrepreneurial activity. The passionate drive and intense hunger of entrepreneurs to forge new directions products and processes and to take risks set in motion a series of decisions that lead to the innovations that are important for economic vitality. Without these new ideas, economic, technological, and social progress would be slow indeed.

The “creative destruction” process of innovating leads to technological changes and employment growth. Entrepreneurial firms act as these “agents of change” by providing an essential source of new and unique ideas that might otherwise go.

2. **Job Creation:** We know that job creation is vital to the overall long-term economic health of communities, regions, and nations. Entrepreneurial ventures play very important role in it. Small business create more jobs than large business do. During economic recession, when large companies are on their way to retrenchment of their work force, individuals whose jobs are eliminated find employment with small business. The creation of jobs by small businesses is expected to continue into the future as new firms start small and grow.
3. **Number of New Start-ups:** All businesses whether they fit the definition of entrepreneurial or not – at one point in time were start-ups, the most convenient measure we have of the role that entrepreneurship plays in this economic statistic is to look at the number of new firms over a period of time. The assumption that we have to make, then, is that some of these new firms engage in activities that are entrepreneurial in nature.

The next important function of entrepreneurship is starting the venture. In fact, entrepreneurs identify opportunities and possible competitive advantages. They set goals and strategies. Pursuit of entrepreneurship contributed to the overall creation of new firms. Why is the creation of new firms so important? It's important because these new firms contribute to economic development through

benefits such as product-process innovations, increased tax revenues, societal betterment, and job creation.

- 4. Opportunity to Contribute to Society and Be Recognized for Your Efforts:** Often, small business owners are among the most respected and most trusted members of their communities. Business deals based on trust and mutual respect are the hallmark of many established small companies. These owners enjoy the trust and recognition they receive from the customers they have served faithfully over the years.

Entrepreneurship often deals with the difficult issues of social responsibility and ethical problems. Entrepreneurship produces such goods and services that protect consumer health and global environment and helps in creating better living conditions in society. It generates employment and conserves natural resources, balances growth in the country and provides more amenities to people. Ethical considerations also play a role in decisions and actions of entrepreneurs.

- 5. Path of Creating Tomorrow:** Peter Drucker Says, “Entrepreneur has to seek off yesterday and to render obsolete what already exists and is already known. He has to create tomorrow. Making the business of tomorrow cannot be a flash of genius. It requires systematic analysis and hard, rigorous work today. The specific job of entrepreneurship is to make today’s business capable of making the future, of making itself into a different business”.

- 6. Entrepreneurship Provides an Opportunity to Make a Difference and Create Your Own Destiny:** Increasingly, entrepreneurs are starting businesses because they see an opportunity to make a difference in a cause that is important to them. Entrepreneurs are finding ways to combine their concerns for social issues and their desire to earn a good living. Owning a business provides entrepreneurs the independence and the opportunity to achieve what is important to them.

- 7. Entrepreneurship Serve Small Markets With New Technology:** Large firms, with their crippling overheads, do not find it profitable to serve small populations. This is where small entrepreneurial firms serve an invaluable role by providing specialized products to niche customers. Entrepreneurial firms are usually faster to come to the market with radical new technologies. Ultimately, this will lead to a better standard of living for the whole society.

- 8. Entrepreneurship Provides Opportunity to Reach Your Full Potential and Reap Impressive Profit:** Too many people find their work boring, unchallenging, and unexciting, but not entrepreneurs. To them, there is little difference between work and play; the two are synonymous. Entrepreneurs’ businesses become their instruments for self-expression and self-actualization. They know that the only boundaries on their success are those imposed by their own creativity, enthusiasm, and vision.

Although money is not the primary force driving most entrepreneurs, the profits their businesses can earn are an important motivating factor in their decisions to launch companies. Most entrepreneurs never become super-rich: but many of them do become quite wealthy.

- 9. Other Contribution:**

- Entrepreneurship in small businesses helps in distribution of products of large business. They, thus, support the large business houses.

- It offers business avenues to women and minorities. Women and minorities are allowed the benefit of financial independence and a chance to exhibit the ability to manage business enterprises.
- Dispersal of economic activities to different sectors of economy and identifying new avenues of growth.
- Improvement of the standard of living of different weaker sections in the society.
- Bring socio political change in the society.
- Develop technological know-how.
- Improve culture of business and expand commercial activities.
- Entrepreneurship acts as a change agent to meet the requirements of the changing markets and customer preferences.
- Develop a culture of achievement orientation.
- It helps in bringing about change and development of the civilization through change in trade, commerce and industrialization.
- It arouses the need for achievement in individuals which brings about a change in the economic scenario through economic development and growth.
- It results in exploitation of economy's resources, such as labour, capital and technology to the fullest extent.

1.6 Factors Affecting Entrepreneurship

The entrepreneurial activity at any time is dependent upon a complex and varying combination of economic, social, political, psychological and other factors. These factors may have been both positive and negative influences on the emergence of entrepreneurship. Positive influences constitute facilitative and conducive influences for the emergence of entrepreneurship whereas negative influences create inhibiting milieu to the emergence of entrepreneurship.

Following factors contribute to the success of entrepreneurship:

1. **Economic Factor:** Factors such as availability of finance, labour, land, accessibility of customers, suppliers are the factors that stimulate entrepreneurship. Capital is one of the most important prerequisites to establish an enterprise. Availability of sufficient capital affects the introduction, survival and growth of a business enterprise.

Capital is regarded as lubricant to the process of production. If we increase in capital investment, capital output ratio also tends to increase. This results in increase in profit, which ultimately goes to capital formation. Due to this capital supply increase, entrepreneurship also increases.

2. **Socio-Economic Factors:** The entrepreneurial activity at any time and place is governed by varying combination of socio-economic factors. The empirical studies have identified the following socio-economic factors:
 - Cast/religion
 - Family background
 - Level of Education
 - Level of perception
 - Legitimacy of Entrepreneurship
 - Migratory character
 - Social Mobility
 - Social Security

- Investment capacity
- Ambition/motivation

3. **Personal Factors:** McClelland assumes 'that achievement motivation is the immediate cause of the origin of entrepreneurship. He explained entrepreneurial growth in terms of need for achievement motivation. Thus, he found high correlation between need for achievement and successful economic activities.

Personality traits such as inner desire for control of their activities, tolerance for risk, high level of tolerance to function in adverse situations and background experiences such as the family environment, level of education, age and work history tolerance for ambiguity are important personal characteristics that affect entrepreneurship. Individuals who are desirous of working independently; willing to work for long hours and assume risk; are self-confident and hard-working are likely to be more successful as entrepreneurs than those who do not possess these qualities.

4. **Political:** Some researchers felt that the growth of entrepreneurship cannot be explained fully unless the political set-up of a country is taken into consideration. Boulding held that political structure was the deciding factor in entrepreneurial growth of France and Russia. Similarly, Hoselitz argued that France lagged behind economically because its social structure did not provide sufficient incentives and security to entrepreneurs. Medhora also concluded that the entrepreneurial growth in India was delayed not because of lack of entrepreneurial motivation but due to non-commitment of the political structure.
5. **Deregulation and Privatization:** Phillips (1985) gives evidence that small firms are dominant in the increase of entrepreneurial activity in sectors that have been recently deregulated. Liberal economic policies in China have led to phenomenal growth fuelled by entrepreneurs. The collapse of communism in Eastern Europe has led to thriving entrepreneurship in the new free-market economies. Even in the rest of the world, conservative economic policy has given way to a brave new approach that has led to broad level deregulation across industries. Now companies have to deal with fewer licenses and fewer governmental controls. Many state-owned enterprises have also been privatized leading to a greater role of the private sector in general and entrepreneurs in particular.
6. **Internal Control System:** Entrepreneurship largely depends upon the control system designed for controlling the business activities. If the control system is effective they will result in optimal inventory, good quality products and high profit margins. This will have a positive effect on the success of entrepreneurship.
7. **Government Incentives and Subsidies:** Loveman and Sengenberuer (1991) have discussed the positive role of government incentives and subsidies. In India, there are incentives being given by both the state and central government, many of the incentives are often sector specific, being given by the concerned ministry. Similarly, entrepreneurship is being encouraged in many countries with a variety of incentives such as tax breaks, preferred sourcing or grants. Performance, in terms of economic growth, is shaped by the degree to which the prevalent industry structure efficiently utilizes scarce resources.
8. **Impact of Ethical Value System:** Max Weber was first to point out that the entrepreneurial growth was governed by the ethical value system of the society concerned. He said that the spirit of rapid industrial growth depends upon a rationalized technology, acquisition of money and its rational use for productivity and multiplication of money. These elements depend upon a specific value orientation of individuals.

Robert Kennedy and Yale also held the view that entrepreneurship developed rapidly in those societies where ethical values provided independent capacity of decision making. No doubt, this view has some truth but it was not accepted universally.

- 9. Increasing Demand for Variety:** Increased wealth has led to increase in the demand for variety (Jackson 1984). The increasing demand for new products is of advantage to smaller firms. A number of studies have shown the comparative advantage of smaller firms in being innovative and coming up with new products (Prusa and Schmitz 1991, Rothwell 1984). If the products has unmet demand, it will create a market for itself. The success of entrepreneurship is, therefore, dependent upon the extent to which the product is in demand.

Changes in consumer tastes are a major reason for growth of entrepreneur-ship (Brock and Evans 1989). People are, inclined to products that are specifically designed to meet their special needs. Mass produced homogenous goods do not enjoy as wide an appeal anymore. Jovanovic (1993) states that large firms have not been comfortable entering into niche markets.

- 10. Impact of Services Sector:** Increase in per capita income leads to a greater share of the services sector in the national economy (Inmar 1985). The average size of firms' m many sections of the services sector are relatively small. This in turn promotes entrepreneurial activity across a number of service sector industries. Even for some developing countries such as India, services account for over half of the total GDP. Growing importance of services in the overall economy has paved the way for entrepreneurial activity. New industries such as software and business process outsourcing have emerged and these have a large number of entrepreneurial firms.
- 11. Work Environment:** If the environment that a individual is working in is unsatisfactory, that is, not conducive to his growth needs, it is likely that the individual will quit his job and start his own business as an entrepreneur. Unsatisfied personal needs for growth and achievement in employment conditions results in successful entrepreneurship.
- 12. Easier Access to Resources Promotes Entrepreneurship:** Today, it is easier for an entrepreneur to access debt and equity finance than ever before. Not just capital, most other factors of production are now easily available to entrepreneurs. With greater flow of information, it is easier to contact and to deal with resource providers such as raw material suppliers and dealers of capital goods. Also, many business services are now tailored to suit.
- 13. Career Transitions:** "Career transition points are circumstances in which an individual is moving between one type of career-related activity and another." Retirement from existing service or completion of a degree course is the factors that boost up a person's morale to start a venture of his own.
- 14. Entrepreneurial Education:** More and more people with high academic attainments started joining the ranks of industrialists, especially the professionals holding qualifications in engineering, law, medicine, cost and chartered accounting. The newer entrepreneurs have a larger proportion of their floatation in the traditional sector, but these professionals have by and large preferred to make their investments in modern sector. The technicians in particular among both old and new entrepreneurs have entered industries in the modern sector having a bearing of their academic qualifications.

Many universities and institutes are nowadays offering entrepreneurship education. A number of institutes have set up successful entrepreneurship centers, which provide help to budding entrepreneurs by conducting formal training and structured mentoring programmes.

1.7 Entrepreneurship and Economic Development

Let's try to look at what entrepreneurship contributes towards economic development. The role of entrepreneurship in economic development varies from economy to economy depending upon its materials resources, industrial climate and the responsiveness of the political system to the entrepreneurial functions. The entrepreneurs contribute more in favorable opportunity conditions than in the economies with relatively less favorable opportunity conditions.

Entrepreneurship constitutes an important input in the process of economic development. It channelizes resources, capital and men for economic growth. It is the best alternative to overcome the problem of unemployment and poverty. It manages growth. J.A. Timmons has remarked, "It creates and builds something from practically nothing. It takes calculated risks. It is the knack for sensing an opportunity where others see chaos contradiction and confusion. It is the know-how to find, and control resources and to make sure that the venture does not run out of money when it is needed most". Robert Ronstadt writes, "Entrepreneurship is the dynamic process of creating incremental wealth."

According to Schumpeter, economic development consists of "employing resources in a different way", bringing in a new combination of means of production. The entrepreneur looks for ideas and puts them into effect for economic development.

Entrepreneurship has great importance in various economic systems. It is all the more important under capitalism - and mixed economy where not only the responsibilities of entrepreneur in production and distribution are recognized but the objective of growth of business and profit maximization is also attained. Therefore, the importance of entrepreneurship stands beyond challenge in every economic system except under socialism where it appears in a different form, yet, entrepreneurship prevails in all economic systems in one form or the other. An entrepreneur has a critical role in competitive market economy, especially in developing countries like India. An entrepreneur acts as a trigger head to give spark to economic activities by his entrepreneurial decisions.

Further, India which itself is an under-developed country aims at decentralized industrial structure to mitigate the regional imbalances in levels of economic development, small-scale entrepreneurship in such industrial structure plays an important role to achieve balanced regional development. It is unequivocally believed that small scale industries provide immediate large scale employment, ensure a more equitable distribution of national income and also facilitate an effective resource mobilization of capital and skill which might otherwise remain unutilized. Entrepreneurship contributes in economic development in following ways:

- 1. Increasing Income and Per Capita Income:** Entrepreneur brings in new products and services and develops new markets for growth of economy thus increasing gross national product as well as per capita incomes of the people in the country. The role of entrepreneurship in economic development involves more than just increasing per capita output and income; it involves initiating and constituting change economic growth depends on the rate of applied technical progress (i.e., innovation) and rate of technical progress in the economic field which in turn depends on the supply of entrepreneurs in the society. Thus the entrepreneur is the agent of change in society.
- 2. Wealth Creation and Distribution:** Entrepreneurial activity leads to value addition and creation of wealth and capital in the structure of business and society. This change is accompanied by growth and increased output which allows more wealth to be divided by the various participants. It provides

businessmen with a realistic basis to identify, analyze, and exploit a business opportunity. It takes most challenging decisions to help towards the building of a rapid growth and financially sound enterprise William James says, ‘‘It is only through risking our decisions from one hour to another that we create wealth and capital’’. The wealth also gets distributed to more people and geographic areas, thus giving benefit to larger section of society.

- 3. Production Evolution Process:** Entrepreneur understands and takes up product evolution process. This is a process where innovation develops and an entrepreneur commercializes the new products. Here an entrepreneur combines different technologies and fuses them in to products and services which turn into marketable items. Entrepreneurs also focus on costs and efficiency. It asks, ‘‘to what results should the resources and efforts of the business be allocated so as to reach extraordinary productivity and results.

The important role that entrepreneurship plays in the economic development of an economy can now be put in a more systematic and orderly manner as follows:

- Entrepreneurship promotes capital formation by mobilizing the idle saving of the public.
- It provides immediate large-scale employment. Thus, it helps reduces the unemployment problem in the country, i.e. the root of all socio-economic problem.
- It promotes balanced regional development.
- It helps reduces the concentration of economic power.
- It simulates the equitable redistribution of wealth, income and even political power in the interest of the country.
- It encourages effective resource mobilization of capital and skill which might -otherwise remain unutilized.
- It also induces backward and forward linkages which stimulate the process of economic development in the country.
- Last but no means the least; it also promotes country’s export trade i.e., an important ingredient to economic development.

Thus, it is clear that entrepreneurship serves as a catalyst of economic development. On the whole, the role of entrepreneurship in economic development of a country can be best be put as ‘‘an economy is the effect for which entrepreneurship is the cause.’’

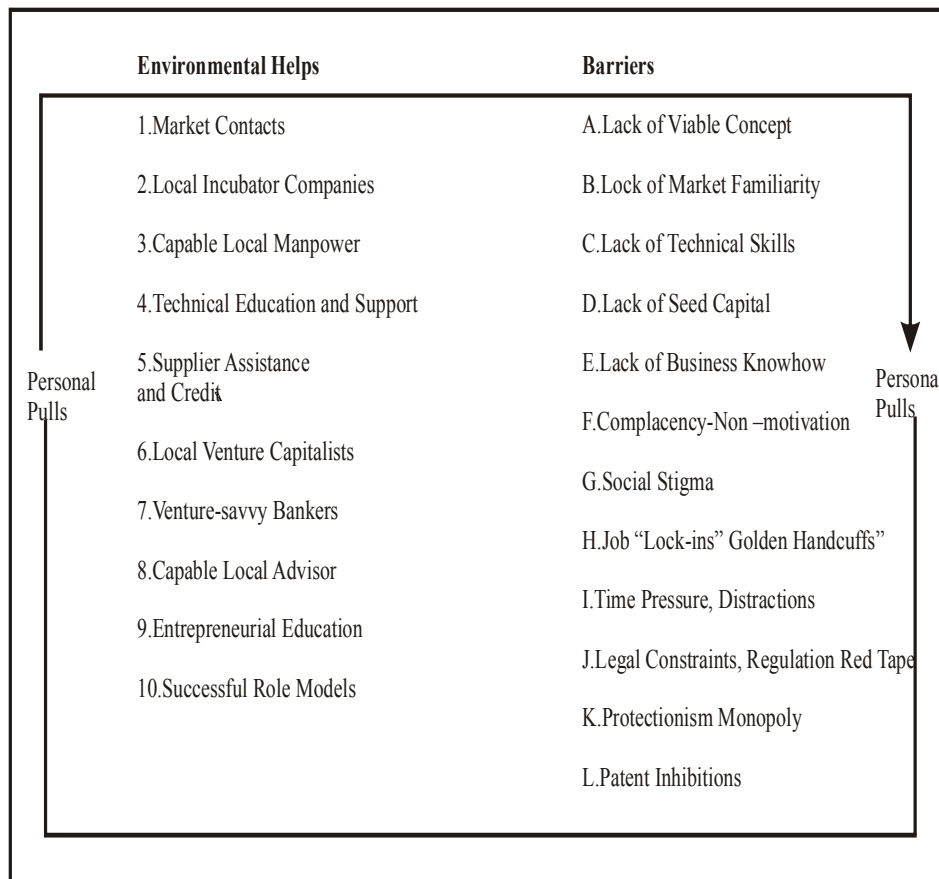
1.8 Barriers to Entrepreneurship

A large number of entrepreneurs particularly in the small enterprises fail due to several problems and barriers like:

- ✓ Lack of market knowledge
- ✓ Lack of technical know how
- ✓ Lack of seed capital
- ✓ Lack of business know how
- ✓ Complacency–lack of motivation and individual spirit
- ✓ Unfavorable family ground
- ✓ Lack of Education
- ✓ Lack of attitude and training
- ✓ Influence of Gender, Caste, Custom.
- ✓ Inadequate infrastructure facilities.
- ✓ Lack of transportation and communication facilities.

- ✓ Unavailability of raw material.
- ✓ Absence of regular supply of power.
- ✓ Absence of Ideal Market conditions.
- ✓ Corruption in administration.
- ✓ Unstable state government.
- ✓ Legal constraints and regulations
- ✓ Monopoly and protectionism

All these causes are due to unfavorable socio economic conditions. Karl H. Vesper lists certain entrepreneurial factors that help to reduce the effect of these barriers. The following figure depicts how it happens:



✓ **Figure 1.7: Barriers to Entrepreneurship**

Source: Karl H. Vesper, *Entrepreneurship and National Policy* (1983), Walter E. Heller, International Institute for Small Business.

Many entrepreneurs may lack managerial skills, marketing capability, or financial resources. Their inventions are often unrealistic, requiring significant modification to be marketable. In addition, entrepreneurs frequently do not know how to interface with all the necessary entities, such as banks, suppliers, customers, venture capitalists distributors and advertising agencies.

Yet, in spite of all these difficulties, entrepreneurship is presently the most effective method for bridging the gap between science and the marketplace, creating new enterprises, and bringing new products and services to the market. These entrepreneurial activities significantly affect the economy of an area by building the economic base and providing jobs. Given its impact on both the overall economy and the employment of an area, it is surprising that entrepreneurship has not become even more of a focal point in economic development

1.9 The Future of Entrepreneurship

As evidenced by the many different definitions, the term entrepreneurship means different things to different people and can be viewed from different conceptual perspectives. However, in spite of the differences, there are some common aspects: risk taking, creativity, innovation, independence, and rewards. These common themes will continue to be the driving force behind the notion of entrepreneurship in the future. One thing is clear: The future for entrepreneurship appears to be bright. We are living in the age of the entrepreneur, with entrepreneurship endorsed by educational institutions governmental units, society, and corporations. Entrepreneurial education has never been so important in terms of courses and academic research.

Various governments are taking an increased interest in promoting the growth of entrepreneurship. Individuals are encouraged to form new business and provided such government support as tax incentives, buildings, roads, and a communication system to facilitate this creation process. Encouragement by local governments should continue in the future as more lawmakers understand that new enterprises create jobs and increase economic output in the area. Some state governments in the India like Gujarat are developing their own innovative industrial strategies for fostering entrepreneurial activity and the timely development of the technology of the area. The impact of this strategy is seen in the venture - capital industry, which is always sensitive to government regulations and policies.

Society's support of entrepreneurship will also continue. This support is critical in providing both motivation and public support. Never before have entrepreneurs been so revered by the general public. Entrepreneurial endeavors are considered honorable and even, in many causes, prestigious pursuits. A major factor in the development of this societal approval is the media. The media has played, and will continue to play, a powerful and constructive role by reporting on the general entrepreneurial spirit and highlighting specific success cases of the spirit in operation.

Forbes magazine comes out with a list of the world's richest persons every year, years back this list used to be dominated by monarchs and heirs of family fortunes build up over years. Now, the case is very different, 7 out of the top 10 are self-made. This goes a long way to prove that entrepreneurship is the path to riches.

Table :1.1 Forbes World's Richest

Rank	Name	Citizenship	Age	Net Worth (\$ billion)
1	William Gates III	Unites States	51	56.0
2	Warren Buffett	Unites States	76	52.0
3	Carlos Slim Helu	Mexico	67	49.0
4	Ingvar Kamprad	Sweden	80	33.0
5	Lakshmi Mittal	India	56	32.0
6	Sheldon Adelson	United States	73	26.5
7	Bernard Arnault	France	58	26.0
8	Amancio Ortega	Spain	71	24.0
9	Li Ka-Shing	Hong Kong	78	23.0
10	David Thomson	Canada	49	22.0

Source: Forbes magazine, 2007

A variety of social, economic, political and cultural factors are stimulating entrepreneurial activity and thus generating more robust economic development. These stimulants are as follows:

- ✓ Availability of capital is a stimulate to an entrepreneur to start a new firm and/or give birth to a new idea.
- ✓ The ability to transform scientific and technical development through new institutional development is a second stimulant.
- ✓ A third stimulant is the supportive government programmes.
- ✓ Availability of required training and input is ranked fourth.
- ✓ A collaborative relationship between business and research and their direct attempts to transfer technology, to the market place may provide stimulus to a number of entrepreneurs who seek the opportunity to commercialize their ideas and
- ✓ Finally, an endeavor to create an environment conducive to innovation will provide a much needed stimulant to entrepreneurial activities.

The innovation centre provides technological evaluation, entrepreneurial assessment and other related levels of assistance to entrepreneurs.

Misconceptions about Entrepreneurship:

- 1. Successful Entrepreneurship Needs Only a Great Idea.** Having a great idea is only part of the equation for successful entrepreneurship. Understanding the demands of the different phases of the entrepreneurial process, taking an organized approach to developing the entrepreneurial venture, and coping with the challenges of managing the entrepreneurial venture are also key ingredients to successful entrepreneurship.
- 2. Entrepreneurship is Easy.** Entrepreneurship is not easy! It takes commitment, determination, and hard work. And even if you have these qualities, it still isn't effortless! Entrepreneurs often encounter difficulties and setbacks, but the successful entrepreneurs are those who push on in spite of the difficulties.
- 3. Entrepreneurship is a Risky Gamble.** Although entrepreneurs aren't afraid to take risks, entrepreneurship involves calculated risks, not unnecessary ones. In fact, there are times when successful entrepreneurship means avoiding or minimizing risks.
- 4. Entrepreneurship is Found Only in Small Businesses.** Many people have the mis-taken idea that entrepreneurship is associated only with small organizations. The truth is that entrepreneurship can be found in any size organization. On the other hand, just because an organization is small doesn't automatically make it entrepreneurial.

1.10 Summary

Globalisation has brought a structural change in the economy and hence in the entrepreneurship. It is breaking the artificial boundaries and giving way to new products, new services and new ways to manufacturing and service methods. The current fast changes are being lead by technology advancements. The globalisation also has brought change of mind set with the government to help entrepreneurship by adopting suitable policies, regulations and inviting foreign capital. The environment is posing challenges of increased competition, new products, substitute products and emerging markets.

Any economy can develop to its extent if it has entrepreneurship. It is necessary to recognize entrepreneurial role as a separate and important factor of production. Large industrial units and business houses also play

an important role in developing and sustaining new entrepreneurship. For this, it should be noted that while the growth of entrepreneurship in India in the last 25-30 years have been remarkable, entrepreneurship is still a comparatively scarce factor in India, as indeed in all developing countries.

The study of entrepreneurship has relevance today, not only because it helps entrepreneurs better fulfill their personal needs but because of the economic contribution of the new ventures. More than increasing national income by creating new jobs entrepreneurship acts as a positive force in economic growth by serving as the bridge between innovation and the marketplace. With this entrepreneurial skills and store of knowledge, Indian entrepreneurs becoming creative and innovative and this will ensure that India will rise as a global economic power house. The entrepreneurship development movement in India had received significant attention; this is borne out by the fact that the small manufacturing enterprises have made phenomenal progress during the last three decades and today occupy an important position in the industrial economy of India.

1.11 Self Assessment Questions

1. Define 'Entrepreneurship'. Describe its characteristics.
2. Discuss the various definitions of 'Entrepreneurship'.
3. Entrepreneurship is an innovative function. It is a leadership rather than an ownership". Discuss.
4. "Entrepreneurship connotes innovation, risk-bearing and relatively dynamic leadership". Explain the statement..
5. Discuss the various views of entrepreneurship. Explain its nature / characteristics.
6. Explain the meaning and importance of Entrepreneurship.
7. Define 'Entrepreneurship'. Also discuss its significance.
8. State the factors that affect entrepreneurship.
9. "Without vision, the people perish. Without entrepreneurship, the economy and business stagnate". (Ralph Horwitz). Discuss the statement.
10. "To study the entrepreneur is to study the main figure in economic activity". Discuss the role of entrepreneurship in economic development of a country with reference to above statement.
11. What have been the main barriers for the growth in entrepreneurship?

1.12 Reference Books

- Sharma Sudhir, Singh Balraj, Singhal Sandeep (2005), "Entrepreneurship Development", Wisdom Publications, Delhi.
- Badi R.V., Badi N.V. (2010), "Entrepreneurship", Vrinda Publications (P) Ltd., Delhi.
- Desai Vasant (2009), "The Dynamics of Entrepreneurial Development and Management - Planning for Future Sustainable Growth", Himalaya Publishing House, India.
- Vasishth Neeru (2008), "Business Organization", Taxmann Allied Services (P.) Ltd., New Delhi.
- Holt David H. (2004), "Entrepreneurship – New Venture Creation", Prentice Hall of India Private Limited, New Delhi.

- Roy Rajeev (2009)], “Entrepreneurship”, Oxford University Press, New Delhi.
- Burns Paul (2001), “Entrepreneurship and Small Business”, Palgrave Mecomillan, China.
- Sudha G.S. (2005), “Management and Entrepreneurship Development”, Indus Valley Publications, New Delhi.
- Basotia G.R., Sharma K.K. (1991), “Handbook of Entrepreneurship Development – An Entrepreneurs Guide to Planning, Starting, Developing and Managing a New Enterprise”, Mangal Deep Publications, Jaipur.
- Coulter Mary (2003), “Entrepreneurship in Action”, Prentice Hall of India Private Limited, New Delhi.
- Zimmerer Thomas W., Scarborough Norman M. (2009), “Essentials of Entrepreneurship and Small Business Management”, PHI Learning Private Limited, New Delhi.
- Hisrich Robert D., Peters Michael P. (2002), “Entrepreneurship – International Edition”, The McGraw-Hill Companies, New York.