
Unit - 2 : Theories of Entrepreneurship

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2.0 Objectives

After completing this unit, you will be able to:

- Describe the historical perspectives of entrepreneurship.
- Point out economical, sociological and psychological view on the emergence of entrepreneurship.
- Understand various theories of entrepreneurship propounded by various eminent authors.
- Focus on various multitudes of factors which influence entrepreneurship.
- Study and analyze global impact of entrepreneurship.
- Explain and correlate various theories from your own point of view.
- Understand Entrepreneurship as multi dimensional concept

2.1 Introduction: Historical Perspectives on Entrepreneurship

The definition of entrepreneurship involves creation of value through fusion of capital, risk taking technology and human talent. It is a multidimensional concept. The distinctive features of entrepreneurship over the years are:

- Innovation,
- A Function of high achievement,
- Organisation building,
- Group level activities,
- Managerial skills and leadership,
- Gap filling activity
- Entrepreneurship – An emerging class.

For Scientist, ‘theory’ refers to the relationships between facts. In another words, theory is some ordering principles. There are various theories of entrepreneurship which may be explained from the viewpoints of economists, sociologists and psychologists. These theories have been supported and given by various thinkers over a period of more than two and half centuries. Let’s understand the Historical perspective of Entrepreneurship in Figure 2.1 :

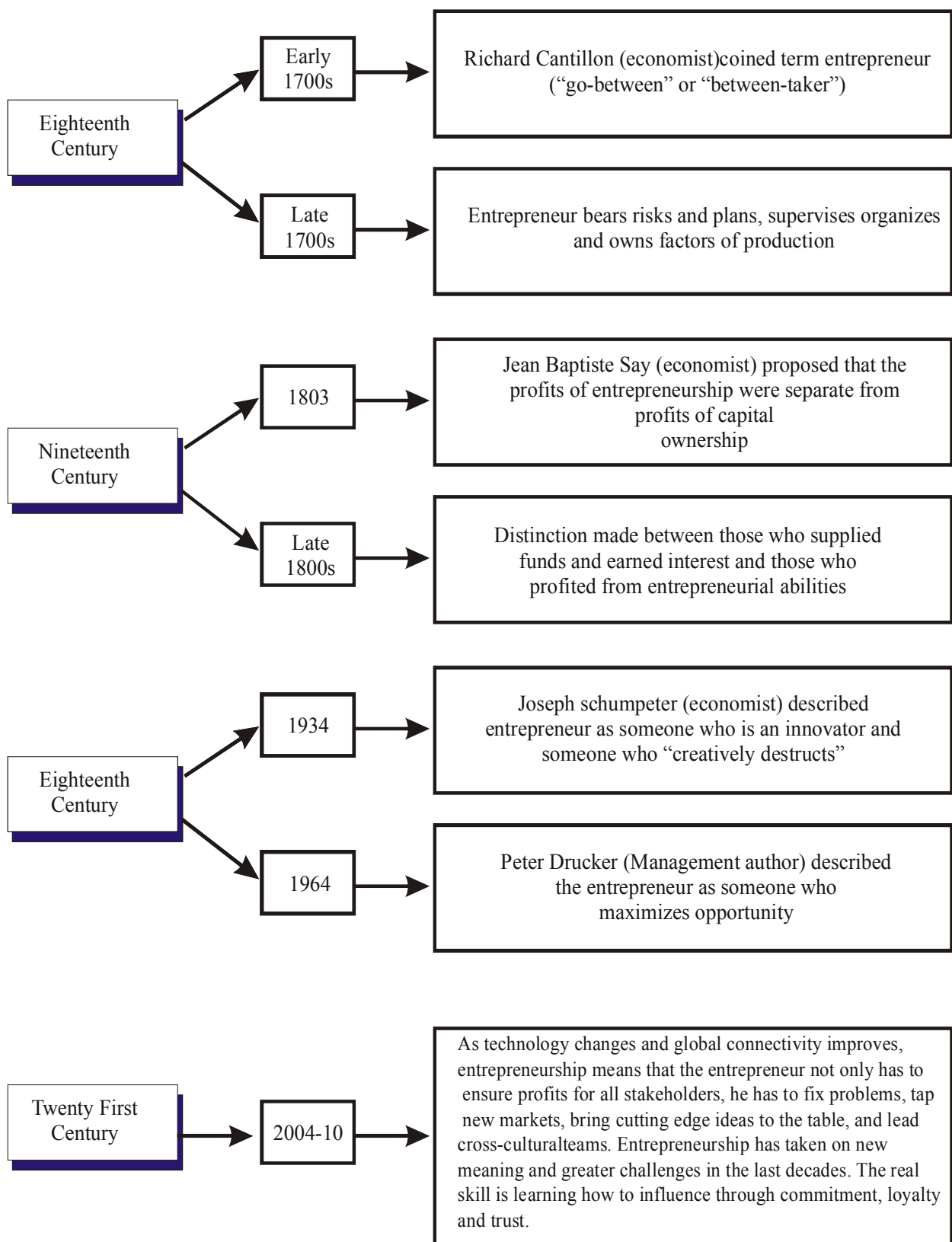


Figure 2.1: Time table of the Development of Entrepreneurship Theory

Although the current popularity of entrepreneurial exploits would tend to make you think that it is a twentieth or twenty first century phenomenon, but it's not like this. Early in the eighteenth century, the French term *entrepreneur* was first used to describe a "go-between" or a "between-taker." Richard Cantillon, a noted economist and renowned author in the 1700s, is regarded by many as the originator of the

term entrepreneur. Cantillon used the term to refer to a person who took an active risk-bearing role in pursuing opportunities.

Late in the eighteenth century, the concept of entrepreneurship was expanded to include not only the bearing of risks but also the planning, supervising, organizing, and even owning the factors of production. The nineteenth century was a fertile time for entrepreneurial activity because technological advances during the industrial revolution provided the impetus for continued inventions and innovations. Then, toward the end of the nineteenth century, the concept of entrepreneurship changed slightly again to distinguish between those who supplied funds and earned interest and those who profited from entrepreneurial abilities.

During the early part of the twentieth century, entrepreneurship was still believed to be distinct and different from the management of organizations. However, in the mid-1930s the concept of entrepreneurship expanded. That's when economist Joseph Schumpeter proposed that entrepreneurship involved innovations and untried technologies or what he called creative destruction, which is defined as the process whereby existing products, processes, ideas, and businesses are replaced with better ones. Schumpeter believed that through the process of creative destruction, old and outdated approaches and products were replaced with better ones. Through the destruction of the old came the creation of the new. He also believed that entrepreneurs were the driving forces behind this process of creative destruction. They were the ones who took the breakthrough ideas and innovations into the marketplace. Schumpeter's description of the process of creative destruction served to highlight further the important role that innovation plays in entrepreneurship. As our earlier definition of entrepreneurship showed, the concepts of innovation and uniqueness are (and always have been) integral parts of entrepreneurial activity.

The final development from the twentieth century we'll look at is Peter Drucker's contention that entrepreneurship involves maximizing opportunities. Drucker is a well-known and prolific writer on a wide variety of management issues. What his perspective added to the concept of entrepreneurship is that entrepreneurs recognize and act on opportunities. Drucker proposed that entrepreneurship doesn't just happen out of the blue but arises in response to what the entrepreneur sees as untapped and undeveloped opportunities.

Although we've looked at only a small portion of entrepreneurship's long and colourful past, keep in mind that the history of entrepreneurship continues to unfold. Its history is still being written today. In the early years of the twenty-first century, researchers continue to study entrepreneurs and entrepreneurship. Although no generally accepted theory of entrepreneurship has emerged from these studies.

2.2 Different Opinion on Emergence of Entrepreneurship

The concept of entrepreneurship has undergone major changes over more than two and half centuries. Yet the concept of entrepreneurship is not clear. As the concept of entrepreneurship is complex in its content, it is influenced by not only economical aspects, but also by sociological, psychological, ethical, religious and cultural values. Over the years the social scientists have interpreted the phenomenon of entrepreneurship differently in accordance with their perception and economic environment. We can identify five stages in the evolution of Entrepreneurship as shown in figure 2.2:

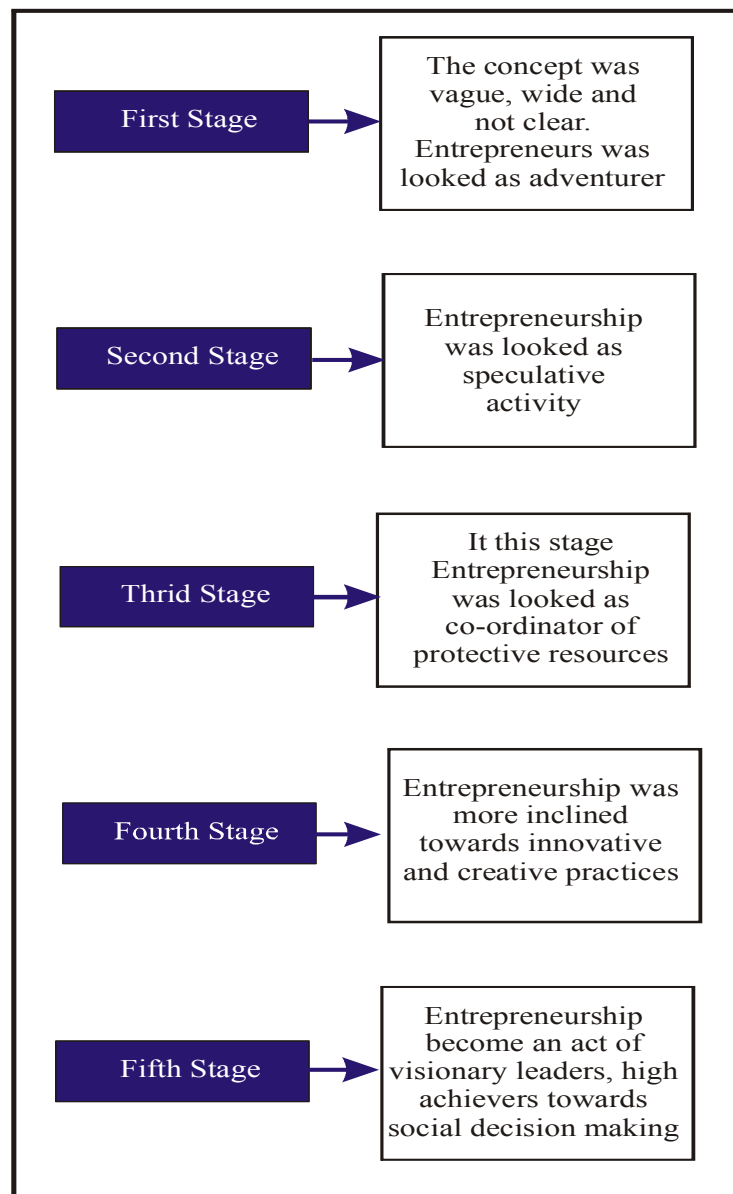


Figure 2.2 : Stage in Evolution of Entrepreneurship

Joseph Massie observes, “However, because of the diversity of approaches to the study of entrepreneurship, there is difficulty in defining just what entrepreneurship is and identifying just who is an entrepreneur.” There are different opinions on the emergence of entrepreneurship. These opinions may be classified into three categories:

- A. Economist’s view
- B. Sociologist’s view
- C. Psychologist’s view

A. Economist’s View

Entrepreneur and entrepreneurship have been a point of interest to economics as early as 1755. The term entrepreneur seems to have been introduced into economics by Cantillon, but the entrepreneur was first accorded prominence by Say. It was variously translated into English as ‘merchant’, ‘adventurer’ and ‘employer’, though the precise meaning is ‘the undertaker of a project.’ James Stuart Mill popularised the term in England.

According to economists entrepreneurship and economic growth will take place in those situations where particular economic conditions are most favourable. Economic incentives are the main drive for the entrepreneurial activities. They firmly believe that a well development market and efficient economic policies foster entrepreneurship a big way. G.F. Papanek and J.R. Harris are the main advocates of this theory. According to them, economic incentives are the main drive for the entrepreneurial activities. In some cases, it not so evident, but the persons inner drives have always been associated with economic gains. Therefore, these incentives and gains are regards as the sufficient conditions for the emergence of industrial entrepreneurship. When an individual recognizes that the market for a product or service is out of equilibrium, he may purchase or produce at the prevailing price and sell to those who are prepared to but at the highest price. Lack of entrepreneurship is due to various kinds of market imperfections and inefficient economic policies.

B. Sociologist's View

Entrepreneurship is inhibited by the social system, which denies opportunities for creative facilities: The forces of custom, values, the rigidity of status and the district of new ideas and of the exercise of intellectual curiosity, combine to create an atmosphere inimical to experiment and innovation. Sociologists argue that entrepreneurship is most likely to emerge under a specific social culture. According to them social sanctions, cultural values and role expectations are responsible for the emergence of entrepreneurship. Social-cultural values channel economic action that gives birth to entrepreneurship. The theories of Weber and Cocharan in this context are mainly sociological in nature and worth mention.

According to Cochran the entrepreneur represents society's model personality. His performance depends upon his own attitudes towards his occupation, the role expectations of sanctioning groups and the occupational requirements of the job. Society's values are the most important determinant of the attitudes and role expectation. According to Weber religious beliefs produce intensive exertion in occupational pursuits, the systematic ordering of means to end, and the accumulation on assets. It is these beliefs, which generate a drive for entrepreneurial growth. Hoselitz suggests that culturally marginal groups promote entrepreneurship and economic development. Such groups, because of their ambiguous position are peculiarly suited to make creative adjustments and thereby develop genuine innovations. In several countries entrepreneurs have emerged from particular socio-economic class. According to Stokes socio-cultural values channel economic action. He suggests that personal and social opportunity and the presence of the requisite psychological distributions may be seen as conditions for an individual's movement into industrial entrepreneurship.

C. Psychologist's View

The phenomenon of entrepreneurship development has been viewed, explained and interpreted differently. Among those who have stressed on the psychological aspects as contributing to entrepreneurial success are Joseph Schumpeter, McClelland, Hagen and Kunkal. The main focus of these theories is as follows:

Schumpeter believes that entrepreneurs are primarily motivated by an atavistic will to power, will to found a private kingdom or will to conquer. According to McClelland it is the high need for achievement which drives people towards entrepreneurial activities. This achievement motive is inculcated through child rearing practices, which stress standards of excellence, material warmth, self-reliance training and low father dominance. Individuals with high achievement motive tend to take keen interest in situations of high rest, desire for responsibility and a desire for a concrete measure of task performance. Hagen considers withdrawal of status respect as the trigger mechanism for changes is personality formation. Status withdrawal is the perception on the part of the members of some social group that their purposes and values on life are not

respected by groups in the society whom they respect Hagen identifies four types of events that cover produce status withdrawal: (a) displacement by force, (b) denigration of valued symbols; (c) inconsistency of status symbols with a changing distribution of economic power, and (d) non acceptance of expected status on migration to a new society.

Kunkel's behavioural model is concerned with the overtly expressed activities of individuals and their relations to the previously and presently surrounding social structures and physical conditions. Behavioural patterns in this model are determined by reinforcing and aversive stimuli present in the social context. Hence, entrepreneurial behaviour is a function of the surrounding social structure both past and present and can be readily influenced by the manipulative economic and social incentives.

According to Psychologists, entrepreneurship is most likely to emerge when a society has sufficient supply of individuals possessing particular psychological characteristics. The main characteristics are:

- an institutional capacity to see things in new way (vision),
- energy of will and mind to overcome fixed habits of thought,
- an urge to do something,
- to fulfil a dream,
- the capacity to withstand social opposition; and
- the high need for achievement.

Each of the above view point is incomplete and none of them is right or wrong. Entrepreneurship is influenced by a multitude factors and, therefore, no single factor by itself can generate entrepreneurship. Thus, entrepreneurship is the outcome of complex and varying combination of socio-economic, psychological and other factors.

2.3 Theories of Entrepreneurship

A coordinated and comprehensive theory of entrepreneurship is yet to come. Mean while lets try to understand the following theories of entrepreneurship propounded by the different eminent social thinkers:

1. Innovation Theory of Schumpeter
2. Need for Achievement Theory of McClelland
3. Leibenstein's X-efficiency Theory
4. Risk Bearing Theory of Knight.
5. Max Weber's Theory of Entrepreneurial Growth
6. Hagen's Theory of Entrepreneurship
7. Thomas Cochran's Theory of Cultural Values
8. Theory of Change in Group Level Pattern
9. Economic Theory of Entrepreneurship
10. Exposure Theory of Entrepreneurship.
11. Political System Theory for Entrepreneurial Growth.

1. Innovation Theory of Schumpeter:

A dynamic theory of entrepreneurship was first advocated by Schumpeter (1949) who considered entrepreneurship as the catalyst that disrupts the stationary circular flow of the economy and thereby initiates and sustains the process of development. Embarking upon 'new combinations' of the factors of production - which he succinctly terms, innovation - the entrepreneur activates the economy to a new level of development.

Schumpeter introduced a concept of innovation as key factor in entrepreneurship in addition to assuming risks and organising factor of production. Schumpeter defines entrepreneurship as “a creative activity”. An innovator who brings new products or services into economy is given the status of an entrepreneur. He regards innovation as a tool of entrepreneur, The entrepreneur is viewed as the ‘engine of growth’, He sees the opportunity for introducing new products, new markets, new sources of supply, new forms of industrial organization or for the development of newly discovered resources. The concept of innovation and its corollary development embraces five functions:

- ❖ The introduction of a new product with which consumers are not yet familiar or introduction of a new quality of an existing product,
- ❖ The introduction of new method of production that is not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new and can also exist in a new way of handling a commodity commercially,
- ❖ The opening of new market that is a market on to which the particular branch of manufacturer of the country in question has not previously entered, whether or not this market has existed before,
- ❖ Conquest of a new source of supply of raw material and
- ❖ The carrying out of the new organisation of any industry.

Schumpeter is the first major theorist to put the human agent at the centre of the process of economic development. He is very explicit about the economic function of the entrepreneur. The entrepreneur is the prime mover in economic development; his function, to innovate or carry out new combinations. Schumpeter makes a distinction between an innovator and an inventor. An inventor discovers new methods and new materials. On the contrary, an innovator is one who utilises or applies inventions and discoveries in order to make new combinations. An inventor is concerned with his technical work of invention whereas an entrepreneur converts the technical work into economic performance. An innovator is more than an inventor because he does not only originate as the inventor does but goes much farther in exploiting the invention commercially.

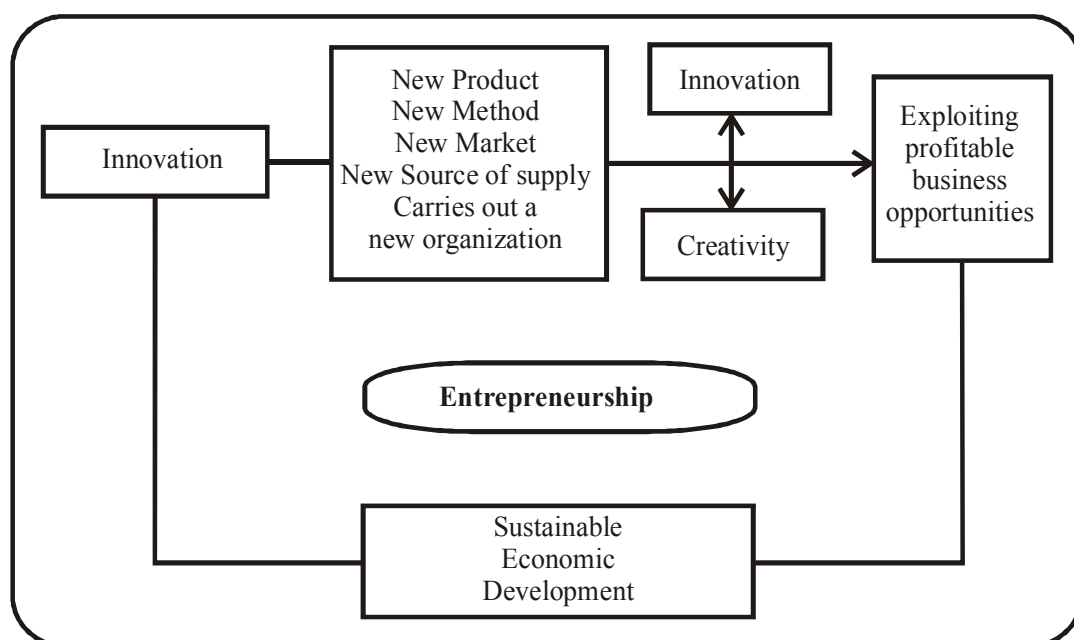


Figure 2.3: Innovation Theory of Entrepreneurship

Wilken had added the concept of the changes that an entrepreneur brings:

- Expansion of goods, products.
- Productivity of factors of production such as finance, labour, material.
- Innovation in production such as, technology, process changes and increase in human resource productivity.
- Innovation in marketing area such as the composition of the market, size of the market and new markets.

To Schumpeter, entrepreneurs are individuals motivated by a will for power; their special characteristic being an -inherent capacity to select correct answers, energy, will and mind to overcome fixed talents of thoughts, and a capacity to withstand social opposition. The factors that contribute to the development of entrepreneurship would essentially be a suitable environment in grasping the essential facts.

It can be noted that this theory's main figure, the "innovating entrepreneur" has played an important role in the rise of modern capitalism. The entrepreneur has been the prime mover - for economic development process. On the criticism side, this theory seems one-sided as it puts too much emphasis on innovative functions. It ignores the risk taking and organizing aspects of entrepreneurship. An entrepreneur has not only to innovate but also assemble the resources and put them to optimum use.

While stressing upon the innovative function of the entrepreneur, Schumpeter ignored the risk-taking function, which is equally important. When an entrepreneur develops a new combination of factors of production, there is enough risk involved.

In spite of these lacking, the theory supports the "enterprising spirit" of entrepreneur to innovate. It is the act that endows resources with a new capacity to create wealth. Drucker says, "Innovation, indeed, creates a resource. It endows it with economic value." Schumpeter's views are particularly relevant to developing countries where innovations need to be encouraged. The transformation of an agrarian economy into an industrial economy required a great deal of initiative and changes on the part of businessmen and managers.

2. Need for Achievement Theory of McClelland:

According to McClelland the characteristics of entrepreneur has two features - first doing things in a new and better way and second decision making under uncertainty. McClelland emphasises achievement orientation as most important factor for entrepreneurs. Individuals with high. achievement orientation are not influenced by considerations of money or any other external incentives. Profit and incentives are merely yardsticks of measurement of success of entrepreneurs with high achievement orientation. People with high achievement (N-Ach) are not influenced by money rewards as compared to people with low achievement. The latter types are prepared to work harder for money or such other external incentives. On the contrary, profit is merely a measure of success and competency for people with high achievement need.

Professor David McClelland, in his book *The Achieving Society*, has propounded a theory based on his research that entrepreneurship ultimately depends on motivation. It is the need for achievement (N-Ach), the sense of doing and getting things done, that promote entrepreneurship. According to him, N-Ach is a relatively stable personality characteristic rooted in experiences in middle childhood through family socialisation and child-learning practices which stress standards of excellence, material warmth, self-reliance training and

low father dominance. According to him a person acquires three types of needs as a result of one's life experience. These three needs are:

- ❖ Need for Achievement. A drive to excel, advance and grow.
- ❖ Need for Power. A drive to dominate or influence others and situations.
- ❖ Need for Affiliation. A drive for friendly and close inter-personal relationships.

McClelland found that certain societies tended to produce a large percentage of people with high achievement. He pointed out that individuals, indeed whole societies that possess N-ach will have higher levels of economic well-being than those that do not. McClelland's work indicated that there are five major components to the N-ach trait: (a) responsibility for problem solving, (b) setting goals, (c) reaching goals through one's own effort, (d) the need for and use of feedback, and (e) a preference for moderate levels of risk-taking.

The individual with high levels of need achievement is a potential entrepreneur. The specific characteristics of a high achiever (entrepreneur) can be summarized as follows:

- (i) They set moderate realistic and attainable goals for them.
- (ii) They take calculated risks.
- (iii) They prefer situations wherein they can take personal responsibility for solving problems.
- (iv) They need concrete feedback on how well they are doing.
- (v) Their need for achievement exist not merely for the sake of economic rewards or social recognition rather personal accomplishment is intrinsically more satisfying to them.

According to McClelland, motivation, abilities and congenial environment, all combine to promote entrepreneurship. Since entrepreneurial motivation and abilities are long run sociological issues; he opined it is better to make political, Social and economic environments congenial for the growth of entrepreneurship in underdeveloped and developing countries.

3. Leibenstein's X-Efficiency Theory:

This theory, originally developed for another purpose, has recently been applied to analyse the role of the entrepreneur. Basically, X-efficiency is the degree of inefficiency in the use of resources within the firm: it measures the extent to which the firm fails to realise its productive potential. According to Leibenstein, When an input is not used effectively the difference between the actual output and the maximum output attributable to that input is a measure of the degree of X-efficiency.

X-efficiency arises either because the firm's resources are used in the wrong way or because they are wasted, that is, not -used at all. Leibenstein identifies two main roles for the entrepreneur: (i) a gap-filler and (ii) an input completer. These functions arise from the basic assumptions of X-efficiency theory. Thus it is clear that "if not all factors of production are marketed or if there are imperfections in markets, the entrepreneur has to fill the gaps in the market. To put the enterprise in motion, the entrepreneur should fill enough of gaps." The second role is input completion, which involves making available inputs that improve the efficiency of existing production methods or facilitate the introduction of new ones. The role of the entrepreneur is to improve the flow of information in the market.

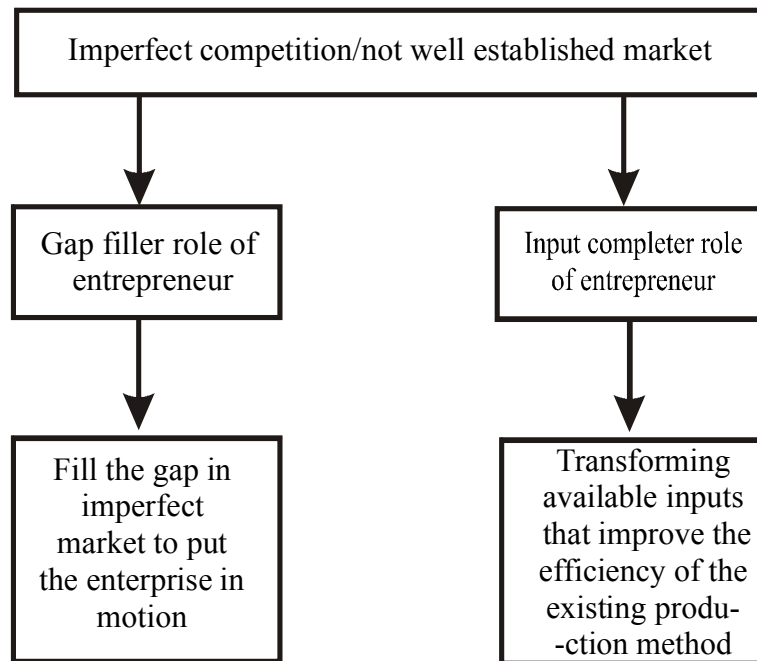


Figure 2.4: Leibenstein X- efficiency Theory

The theory concludes that an entrepreneur has to act as gap filler and an input completer if there are imperfections in markets. For using their unusual skills, he gets profits as well as a variety of non-peculiar advantages. According to him there are two types of entrepreneurship.

- (i) **Routine entrepreneurship** – deals with normal business functions like co-ordinating the business activities.
- (ii) **Innovative entrepreneurship** – wherein an entrepreneur is innovative in his approach. It includes the activities necessary to create an enterprise where not all the markets are well-established or clearly defined.

4. Risk Bearing Theory of Knight:

A key element of entrepreneurship is risk bearing. Prof. Knight and John Stuart Mill saw risk-bearing as the important function of entrepreneurs. Some important features of this theory are as follows:

1. **Risk creates Profit:** According to the risk-bearing theory, the entrepreneur earns profits because he undertakes risks.
2. **More Risk More Gain:** The degree of risk varies in different industries. Entrepreneurs undertake different degrees of risk according to their ability and inclination. The risk theory proposes that the more risky the nature of business, the greater must be the profit earned by it.
3. **Profit as Reward and Cost:** Profit is the reward of entrepreneur for assuming risks. Hence, it is also treated as a part of the normal cost of production.
4. **Entrepreneur's Income is Uncertain:** He identifies uncertainty with a situation where the probabilities of alternative outcomes cannot be determined either by a priori reasoning or by statistical inference. A priori reasoning is simply irrelevant to economic situation involving a unique event. This theory summarizes that profit is the reward of an entrepreneur effort which arises for bearing non-insurable risks and uncertainties and the amount of profit earned depends upon the degree of uncertainty bearing. Knight argues that business enterprises the level of uncertainty can be reduced

through 'consolidation'. Consolidation is to uncertainty is what insurance is to risk; it is a method of reducing total uncertainty by pooling individual instance. The elasticity of the supply of self confidence is the single most important determinant of the level of profit and the number of entrepreneurs.

5. Max Weber's Theory of Entrepreneurial Growth:

Max Weber in his theory says religion has a large impact on entrepreneurial development. According to Weber some religions have basic beliefs to earn and acquire money and some have less of it. He calls them a 'spirit of capitalism' and 'adventurous spirit'. The spirit of capitalism will be generated when mental attitude in the society is favourable to capitalism. According to Max Weber, driving entrepreneurial energies are generated by the adoption of exogenously-supplied religious beliefs. It is these beliefs which produce intensive exertion in occupational pursuits, the systematic ordering of means to ends, and the accumulation of assets. His theory suggests the belief systems of Hinduism, Buddhism ad Islam do not encourage entrepreneurship. His stand has been challenged by many sociologists. Max Weber's Theory is shown in Figure 2.5

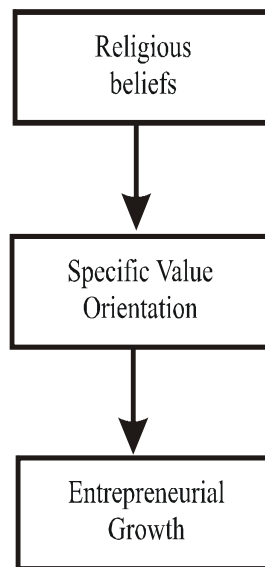


Figure 2.5: Max Weber's Theory

Max Weber's theory suited the colonial rulers who wanted to encourage European entrepreneurship in India. But it has been criticised by subsequent researchers. The theory is based on the invalid assumptions, which are:

- (a) There is a single system of Hindu value,
- (b) The Indian community internalised those values and translated them to day-to-day behaviour, and
- (c) These values remained immune to and insulated against external pressures and change. The rapid growth of -entrepreneurship in India since independence proves that Hinduism is not averse to the spirit of capitalism and to adventurous spirit.

Many thinkers have accepted the Weber's analysis of linkage between religious belief and entrepreneurial growth. But this view is not accepted universally. Samuelson criticised Weber's view on the ground that capitalism also developed in those societies where protestant ethic was 'not prevalent. Hoselitz argued that Protestant could not develop industries in France because they were not given political security. It can be concluded in the words of Carroll that "ethical values have some effect on entrepreneurial growth but to consider them all in all would be unrealistic."

6. Hagen's Theory of Entrepreneurship:

One important theory of entrepreneurial behaviour has been propounded by Hagen which is referred to as the withdrawal of status respect. Hagen has attributed the withdrawal of status respect of a group to genesis of entrepreneurship. Hagen considers the withdrawal of status, of respect, as the trigger mechanism for changes in personality formation. Status withdrawal occurs when members of some social group perceive that their purposes and values in life are not respected by the groups in the society they respect, and whose esteem they value. Hagen postulates four types of events which can produce status withdrawal:

- Displacement of a traditional elite group from its previous status by another traditional supply physical force.
- Denigration of valued symbols through some change in the attitude of the superior group.
- Inconsistency of status symbols with a changing' distribution of economic power.
- Non-acceptance of expected status on migration to a new society.

Hagen further postulates that withdrawal of status respect would give to four possible reactions and create four different personality types:

(a)Retreatist: Entrepreneur who continues to work in society but remains indifferent to his work or status.

(b)Ritualist: One who works as per the norms in the society hut with no hope of improvement in the working conditions or his status.

(c)Reformist: One who is a rebellion and tries to bring in new ways of working and new society.

(d)Innovator: An entrepreneur who is creative and try to achieve his goals set by himself.

According to Hagen (1962), the creativity of a disadvantaged minority group is the main source of entrepreneurship. He developed this thesis from the case of the samurai community of Japan. Traditionally, this community had enjoyed a high status of which it was deprived later. To regain this lost prestige, it became more active and vigorous and gave rise to many entrepreneurs. McClelland supported this thesis by admitting that a suppressed community had more *creativity*. He said that Jains could be successful entrepreneurs because of their consciousness of their majority and superiority complexes. McClelland had modified Hagen's thesis slightly in order to explain such cases. He stated that the subordination of minority group could arouse achievement motivation in its members but its extent depended upon the initial level of motivation and the means available to the group to active its achievement motivations.

7. Thomas Cochran's Theory of Cultural Values

The key proportions in Thomas Cochran's theory are cultural values, role expectations and social sanctions. According to him, the entrepreneur represents society's model personality. His performance is influenced by the factors of his own attitudes towards his occupation, the role expectations held by sanctioning groups, and the operational requirements of the job. The determinants for the first two factors are the society's values. Changes over time in such variables as population, technology, and institutional drift will impinge on the role structure by creating new operational needs. In most countries, entrepreneurs have emerged from a particular socio-economic class. The Protestant ethic of the West is said to have contributed to the emergence of a new class of industrialists. It can be noted that various communities and castes like samurai in Japan, family pattern in France, Yoruba in Nigeria, Kikuya in Kenya, Christians in Lebanon, Halai Memon industrialists in Pakistan, Parsees, Marwaries and Gujaratis in India have been the sources of entrepreneurship.

8. Theory of Change in Group Level Pattern:

Young defines entrepreneurs as that the entrepreneur characteristics are found in small groups wherein individuals develop as entrepreneurs. Young arrived at the group level pattern behaviour entrepreneurs based on his studies known as Thematic Appreciation Test (TAT) on groups of entrepreneurs. The test revealed the tendency to describe the situation as a problem to be solved, an awareness of pragmatic effort required, confidence in their own ability to solve the problem and a tendency to take the viewpoint of each individual in turn and analyse the situation as he might see it before suggesting an outcome. Young's theory is a theory of change based on society's incorporation of reactive subgroups. A group becomes reactive when the following three conditions coincide:

- When denied of access to important social networks;
- When a group experiences low 'status recognition; and
- When the group has better institutional resources than other groups in the society at the same level.

9. Economic Theory of Entrepreneurship

Many economists revealed that entrepreneurship and economic growth will take place in those circumstances where particular economic conditions are in favour of the business environment. The main advocates of this theory were Papanek and Harris. According to them economic incentives are the main forces for entrepreneurial activities in any country. There are a lot of economic factors which promote or demote entrepreneurship in a country. These factors are:

- (a) The availability of bank credit
- (b) High capital formation with a good flow of savings and investments
- (c) Supply for loanable funds with a lower rate of interest.
- (d) Increased demand for consumer goods ad services
- (e) Availability of productive resources.
- (f) Efficient economic policies like fiscal ad monetary policies
- (g) Communication and transportation facilities

Economic development was the result of rationalization of technology and accounting systems and the acquisition of capital and its productive use was the main theme of the Weberian thesis. Some scholars have tried to explain the growth of entrepreneurship in terms of regional economic factors, e.i., industrial support to environment in these regions. A question which was analysed by a researcher is: "Since Jains and Vaisyas were in every corner of India, why was it that only Marwari ad Gujarati Vaisyas and Jains gave lead in entrepreneurship, mostly in Gujarat". This analysis revealed that Gujarat had environment favourable to business and industry. Thus, it can be concluded that the industrial climate may have a very significant impact on the response of entrepreneurs. However, the group factors, as emphasized by various studies, cannot be ignored altogether.

10. Exposure Theory of Entrepreneurship:

Many studies have shown that it is the exposure to new ideas and opportunities towards creativity ad innovation which leads to create a new venture. There is adequate empirical evidence to prove its validity. 'Tripathi has observed that exposure to new ideas and values were the common factor between Parsi and Hindu entrepreneurs, which led them to entrepreneurship. Education have played very significant role in exposing the Indian entrepreneurs to Western ideas leading them to entrepreneurship. It is also the differential responses of the social groups to opportunities provided by the commitment of the political system to industrialisation that has led the process of entrepreneurial spread. This concept is illustrated in Figure 2.6 as under:

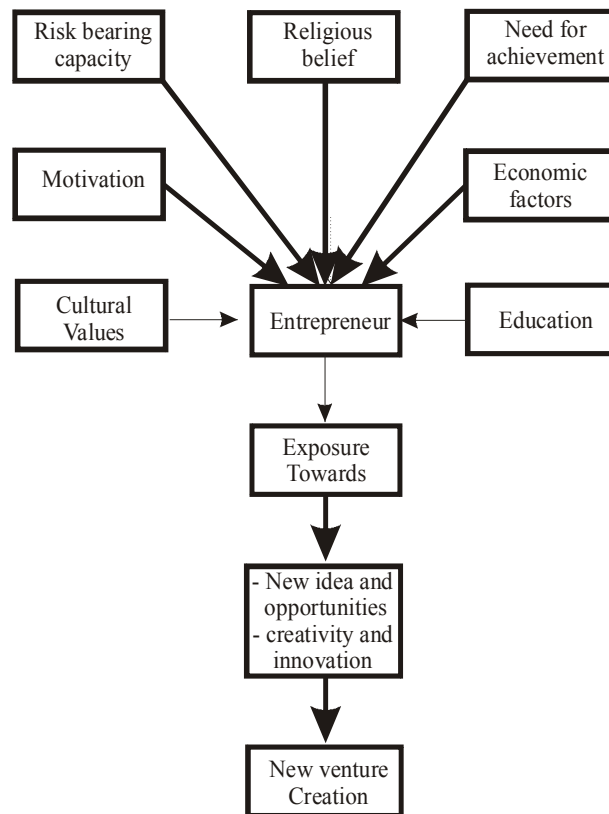


Figure 2.6 : Exposure Theory of Entrepreneurship

11. Political System Theory of Entrepreneurial Growth:

Political system can create adequate infrastructure, favourable laws, favourable taxation system and procedures, provide incentives and subsidies, security to entrepreneurs, create promoting policies and can encourage people towards entrepreneurship. Government can also build supporting system for potential entrepreneurs. Thus, the commitment of political system can contribute significantly towards entrepreneurial development.

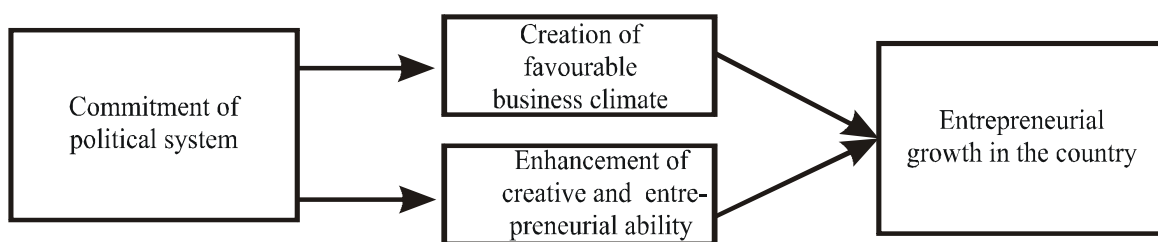


Figure 2.7: Political System Theory of Entrepreneurial Growth

According to Hoselitz, Japanese entrepreneurs could flourish because their political system was able to properly integrate with various sectors such as the industrial and agricultural, large, small and handicraft industries, labour intensive and capital intensive technology, traditional and modern social structure. Also, there was no colonial disruption. According to Boulding “political structure was the *decisive* factor in entrepreneurial growth of France and Russia. But before 1917 it did not flourish because the creative ability of masses could not find expression. Hoselitz argued that France lagged behind entrepreneurially, because his political system did not provide sufficient incentives and security to entrepreneurs.

2.4 Entrepreneurship Globally

The Global Entrepreneurship Monitor 2000 report covered 21 countries that were divided into three levels of entrepreneurship (See Table No. 2.1). As you can see from this data, the highest levels of entrepreneurial activity were found in five countries (Australia, Canada, Korea, Norway, and the United States.) Average levels of entrepreneurial activity were found in 14 countries and the lowest levels of entrepreneurial activity were found in two countries – France and Japan. In addition, the researchers found among the major industrialized G-7 countries (group of seven countries including Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States), in particular, a very strong relationship between the level of entrepreneurial activity and annual economic growth. The GEM report provides conclusive evidence that promoting entrepreneurship and enhancing the entrepreneurial dynamics of a country should be an integral element of any government’s commitment to boosting economic well-being.

Table 2.1 Level of Entrepreneurial Activity around the Globe

Top Level	Middle Level	Lowest Level
Australia	Argentina	France
Canada	Belgium	Japan
Korea	Brazil	
Norway	Denmark	
United States	Finland	
	Germany	
	India	
	Israel	
	Ireland	
	Italy	
	Singapore	
	Spain	
	Sweden	
	United Kingdom	

Source : Based on “Economic Growth Linked to Level of Business Start - ups,” GEM 2000 Report

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

- ❖ An increasing focus on capital formation.
- ❖ The ability to transform scientific and technical developments through new institutional development.
- ❖ The supportive government programmes.
- ❖ Availability of required training and inputs.
- ❖ A collaborative relationship between business and research and their direct attempts to transfer technology to the market place will be an opportunity for entrepreneurs who commercialise their ideas.
- ❖ Finally, an endeavour to create an environment conducive to innovation will provide a much-needed stimulant to entrepreneurial activities.

From a global perspective, we can also conclude that entrepreneurship plays an important role in a country’s economic growth. The future of entrepreneurship is bright in developing countries. “We are living in an age of entrepreneurial development. The entrepreneurship is endorsed and encouraged by educational institutions, governments, society / and other corporate bodies in India and other developing countries. Entrepreneurial development is introduced as a core subject in universities \ curriculum. The research activities in this direction

are also on growth path. Government organisations are helping entrepreneurs by building infrastructure such as readymade Industrial sheds buildings, training facilities, roads communication, loan for new projects, working capital loans. The governments have understood the potential of new units in creating new jobs, new markets and growth of economy. Governments in developing countries are encouraging collaborations and joint venture and. technology transfers with large MNCs and other corporation to develop indigenous technologies. Growth of few industries is planned to take advantage of available resources and channelizing efforts in new growth markets.

2.5 Summary

The Chapter deals with the multi-dimensional concept of entrepreneurship wherein the eleven theories of entrepreneurship have been discussed in detail. The most important was the Schumpeter's theory of innovation wherein Schumpeter emphasises the importance of innovation in entrepreneurship. The second important theory of entrepreneurship is written by McClelland as a function of achievement that is doing things in a better way and taking critical decisions in a new enterprise.

From the above theories we can see that Schumpeter and McClelland have given primary importance to the individual. While Schumpeter has stressed on innovativeness or creativity of the individual as an important determinant for entrepreneurship, McClelland stresses more on the internal factors, specifically, the need for achievement. Weber has touched upon the religious belief system which is part of culture and which has a great influence in determining the individual's behaviour in every aspect of his life. Hegan's views economic development as a process which is brought about by withdrawal of status respect of a group. Young lays greater emphasis on the nature of the groups, group's assistance and coordination. Like Weber and McClelland, Cochran also speaks in different terms but explicitly, of cultural values and social structure (which include role expectations and social sanction) as playing a vital role in economic development.

As observed, every theorist has looked at the entrepreneur and entrepreneurship on the basis of his perception, and therefore, can, at best, provide only a limited view of entrepreneurial phenomenon. No view is right or wrong, or more or less; in fact, the various factors which cause the emergence of entrepreneurship are integral and not additive. They are interlocking, mutually dependent and usually reinforcing.

As a conclusion, it can be said that entrepreneurship, is the outcome of a complex and varying combinations of socio-economic, psychological and other factors. A realistic perspective should take them together. Each of the entrepreneurship theories discussed are inter-disciplinary and are influenced by a multitude of factors. It is the integration of external environment, dream, ambition, passion, achievement, motivation, commitment, integrity, zeal, honesty, sincerity, ability and hard work which largely determine whether an individual become an entrepreneur or not.

2.6 Self Assessment Questions

1. Define Entrepreneurship and put a light on historical perspective of Entrepreneurship.
2. How emergence or evolution of entrepreneurship took place? Explain in Detail.
3. Describe in detail the economist's, sociologist's and psychologist's view in detail about the emergence of entrepreneurship.
4. Discuss theories of entrepreneurship and prove that "entrepreneurship is multi-dimensional concept."
5. What are entrepreneurship theories of innovation and a function of high achievement?

6. What is the Risk-bearing theory of Entrepreneurship propounded by Knight? Explain in detail.
7. Explain and evaluate the Innovation theory of Schumpeter.
8. Analyse the Economic Theory of Entrepreneurship.
9. Analyse the Hagen's theory of Entrepreneurship.
10. Enunciate the X-efficiency Theory of Leibenstein.
11. Analyse Thomas Cochran's Theory of culture of values.
12. Explain and evaluate theory of change in group level pattern.
13. What is Max Weberian Model of Entrepreneurship? Also evaluate it.
14. Enunciate the 'Exposure Theory' of Entrepreneurship.
15. Explain the Political System Theory of Entrepreneurship.
16. Write a note on "Global Scenario of Entrepreneurship."

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