

LESSON- 1

ENTREPRENEUR AND ENTREPRENEURSHIP

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STRUCTURE

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1.0 INTRODUCTION

Do you know that there are millions of unemployed youth in the country and by the time you graduate, this number would have increased substantially? Do you want to be part of that group which keeps knocking from pillar to post, checking with employment exchanges, relatives, friends, and neighbours and still not able to get a job to their liking and then settle for a second or third rate job?

You can also choose to be like Mr. Patel of Nirma who was a chemist's assistance and has a Rs. 2500 crore company today. Did you know that the original Mr. Bata was a cobbler? And now has stores in more than 30 countries all over the world. Or you could be like Dhirusbhai Ambani who started life as a clerk in a French company in Aden. He was not born into a business family nor did he possess an MBA degree and yet, he is a household name in India and figures in

the Forbes list of the richest Asians. Lakshmi Mittal, the steel giant, Satbir Bhatia of Hotmail fame and Narayan Murthy of Infosys are some other names in the endless list you could choose from.

If your answer is yes then you can definitely opt for a career in entrepreneurship. This book will help you to understand the process of setting up a small business, running it successfully and seeing it grow. And let us remind you that this career opportunity is not only for boys but also for girls - all those girls who think smart, are ready to act and script the story of their own life - like Shehnaz Hussain or Ritu Kumar or Kiran Majumdar Shaw.

1.1 OBJECTIVES

After going through this lesson you should be able to:

- Inculcate the Desire to take up Entrepreneurship as a Career
- Differentiate between Wage employment, Self-employment and Entrepreneurship
- Define and know the Meaning of the terms Entrepreneur, Entrepreneurship and Enterprise
- Learn about the Functions performed by an Entrepreneur
- Understand the Role of Entrepreneurship in Economic Development
- Differentiate the roles of an Entrepreneur and a Manager

1.2 ENTREPRENEURSHIP AS A CAREER OPTION

After finishing your graduation you will be at the crossroads of life. You will face the dilemma of choosing what you have to do in life. The vast majority of human beings direct their activities towards earning a living, generating wealth and improving their standard of living. You can choose your career from two broad categories of options – Wage Employment or Entrepreneurship. The term ‘career’ signifies a continuous, ever evolving, ever expanding opportunity for personal as well as business growth and development. We may define entrepreneurship as a career in your own business [YOB] rather than wage employment [JOB]. If you opt for a job then you will work for others. In case you opt for entrepreneurship you will be your own boss.

In case of wage employment one is engaged in routine work carried on for others for which he receives salary or wages. He has to follow instructions and execute plans laid down by his superior. One can choose to be employed in Government Service or the Public Sector or the Private sector. Some of the main differences between entrepreneurship and wage employment career options are as under-

Wage Employment	Entrepreneurship
Work for Others Follow Instructions Routine Job Earning is fixed, never negative Does not create wealth Can choose from- Government service Public Sector Private Sector	Own Boss Make own plans Creative activity Can be negative sometimes, generally surplus Creates Wealth, contributes to GDP Can choose from- Industry Trade or Service Enterprise

Fig 1.1 – Difference between Wage Employment and Entrepreneurship

In the context of employment generation the three terms- Income generation, Self-employment and Entrepreneurship are often used interchangeably.

Income generation is the initial stage in the entrepreneurial process in which one tries to generate surplus or profit. They are often taken on part- time or casual basis to supplement income e.g. a man with some surplus money might put his money in a fixed deposit account in a bank or a chit -fund to earn some interest.

Self-employment is the second stage in the entrepreneurial process and refers to an individual’s fulltime involvement in his own occupation. e.g. a person who starts a tea shop and remains happy and satisfied and has no plans to add on any other items like samosas, buns, soft drinks etc. or to grow in any other manner[e.g. supplying tea/coffee/sandwiches to others in the vicinity].

Entrepreneurship is the terminal stage of the entrepreneurial process wherein after setting up a venture one looks for diversification and growth. We will learn more about entrepreneurship a little latter in the lesson. An entrepreneur is always in search of new challenges. An entrepreneur is not a routine businessman he might not have resources but he will have ideas. He is innovative and creative. He can convert a threat into an opportunity. Small businessmen might shut-down or change his business if he anticipates losses but an entrepreneur will try again after analyzing the situation. On the other hand an entrepreneur can leave a perfectly running business to start another venture if he so desires.

Functionally all entrepreneurs are self-employed and income generating persons but the reverse is not true- all self-employed and income generating persons are

not entrepreneurs. If seen on a continuum, income generation, self-employment and entrepreneurship can be considered as the initial, middle and final stages of the entrepreneurial growth process. Income generating experience encourages self-employment, which in turn facilitates graduating into entrepreneurship.

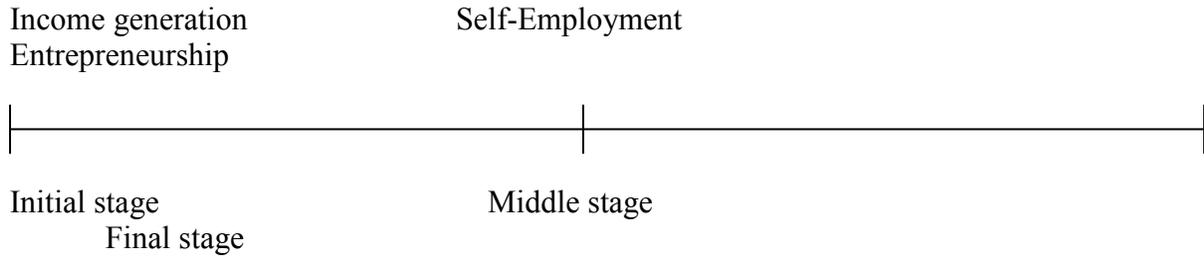


Figure 1.2 the Entrepreneurial Process

Key Words

Identify six key words used in this section

Check your progress

Give two examples each of

Government Service-----

Public Sector-----

Private Sector-----

Industry-----

Trade and Service enterprises-----

1.3 CONCEPTS AND DEFINITIONS

ENTREPRENEUR, ENTREPRENEURSHIP, ENTERPRISE

So let us see- is setting up one's business that simple and easy or is there more to it. In order to know what being enterprising is all about we need to understand the following terms- Entrepreneur, Entrepreneurship, and Enterprise.

1.3.1 ENTREPRENEUR

An entrepreneur is a person who starts an enterprise. He searches for change and responds to it. A number of definitions have been given of an entrepreneur-

The economists view him as a fourth factor of production along with land labour and capital.

The sociologists feel that certain communities and cultures promote entrepreneurship like for example in India we say that Gujaratis and Sindhis are very enterprising.

Still others feel that entrepreneurs are innovators who come up with new ideas for products, markets or techniques.

To put it very simply an entrepreneur is someone who perceives opportunity, organizes resources needed for exploiting that opportunity and exploits it. Computers, mobile phones, washing machines, ATMs, Credit Cards, Courier Service, and Ready to eat Foods are all examples of entrepreneurial ideas that got converted into products or services.

Some definitions of an entrepreneur are listed below:

Definitions of an entrepreneur

Stems: from the French word 'entreprendre' meaning one who undertakes or one who is a 'go-between'

1725: Richard Cantillon: An entrepreneur is a person who pays a certain price for a product to resell it at an uncertain price, thereby making decisions about obtaining and using the resources while consequently admitting the risk of enterprise.

1803: J.B. Say: An entrepreneur is an economic agent who unites all means of production- land of one, the labour of another and the capital of yet another and thus produces a product. By selling the product in the market he pays rent of land, wages to labour, interest on capital and what remains is his profit. He shifts economic resources out of an area of lower and into an area of higher productivity and greater yield.

1934: Schumpeter: According to him entrepreneurs are innovators who use a process of shattering the status quo of the existing products and services, to set up new products, new services.

1961: David McClelland: An entrepreneur is a person with a high need for achievement [N-Ach]. He is energetic and a moderate risk taker.

1964: Peter Drucker: An entrepreneur searches for change, responds to it and exploits opportunities. Innovation is a specific tool of an entrepreneur hence an effective entrepreneur converts a source into a resource.

1971: Kilby: Emphasizes the role of an imitator entrepreneur who does not innovate but imitates technologies innovated by others. Are very important in developing economies.

1975: Albert Shapero: Entrepreneurs take initiative, accept risk of failure and have an internal locus of control.

1983: G. Pinchot: Intrapreneur is an entrepreneur within an already established organization.

Check your progress

Can you identify 3 enterprising ideas, which can be explored?

1.3.2 ENTREPRENEURSHIP

Entrepreneurship can be described as a process of action an entrepreneur undertakes to establish his enterprise.

Entrepreneurship is a creative activity. It is the ability to create and build something from practically nothing. It is a knack of sensing opportunity where others see chaos, contradiction and confusion. Entrepreneurship is the attitude of mind to seek opportunities, take calculated risks and derive benefits by setting up a venture. It comprises of numerous activities involved in conception, creation and running an enterprise.

According to Peter Drucker Entrepreneurship is defined as ‘a systematic innovation, which consists in the purposeful and organized search for changes, and it is the systematic analysis of the opportunities such changes might offer for economic and social innovation.’

Entrepreneurship is a discipline with a knowledge base theory. It is an outcome of complex socio-economic, psychological, technological, legal and other factors. It is a dynamic and risky process. It involves a fusion of capital, technology and human talent. Entrepreneurship is equally applicable to big and small businesses, to economic and non-economic activities. Different entrepreneurs might have some common traits but all of them will have some different and unique features. If we just concentrate on the entrepreneurs then there will be as many models as there are ventures and we will not be able to predict or plan, how and where, and when these entrepreneurs will start their ventures.

Entrepreneurship is a process. It is not a combination of some stray incidents. It is the purposeful and organized search for change, conducted after systematic analysis of opportunities in the environment. Entrepreneurship is a philosophy- it is the way one thinks, one acts and therefore it can exist in any situation be it business or government or in the field of education, science and technology or poverty alleviation or any others.

1.3.3 ENTERPRISE

Entrepreneur is a person who starts an enterprise. The process of creation is called entrepreneurship. The entrepreneur is the actor and entrepreneurship is the act. The outcome of the actor and the act is called the enterprise. An enterprise is the business organization that is formed and which provides goods and services, creates jobs, contributes to national income, exports and over all economic development.

Check Your Progress

Match the entrepreneur and his enterprise from the following words, which are all jumbled up

Wipro, Ambani, Patel, Azimji Premji, credit card, Reliance, Nirma, HDFC.

1.3.4 DIFFERENCE BETWEEN ENTREPRENEUR AND ENTREPRENEURSHIP

The term entrepreneur is used to describe men and women who establish and manage their own business. The process involved is called entrepreneurship. Entrepreneurship is an abstraction whereas entrepreneurs are tangible people. Entrepreneurship is a process and an entrepreneur is a person. Entrepreneurship is the outcome of complex socio-economic, psychological and other factors. Entrepreneur is the key individual central to entrepreneurship who makes things happen. Entrepreneur is the actor, entrepreneurship is the act. Entrepreneurship is the most effective way of bridging the gap between science and the market place by creating new enterprises. An entrepreneur is the catalyst who brings about this change.

1.4 ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

The industrial health of a society depends on the level of entrepreneurship existing in it. A country might remain backward not because of lack of natural resources or dearth of capital [as it is many times believed] but because of lack of entrepreneurial talents or its inability to tap the latent entrepreneurial talents existing in that society. Entrepreneurs historically have altered the direction of national economies, industry or markets- Japan, Singapore, Korea, Taiwan to name a few.

1.4.1 ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT

Entrepreneurship is basically concerned with creating wealth through production of goods and services. This results in a process of upward change whereby the real per capita income of a country rises overtime or in other words economic development takes place. Thus entrepreneurial development is the key to economic development. In fact it is one of the most critical inputs in the economic development of a region. It speeds up the process of activating factors of production leading to a higher rate of economic growth, dispersal of economic activities and development of backward regions. If a region is unable to throw up a sufficient number of entrepreneurs then alien entrepreneurs usually step in to provide goods and services needed by the people. However the profits earned by these entrepreneurs are usually not ploughed back but repatriated to their place of origin. As a result development in that region cannot take place. Dr. M.M.

Akhori refers to this practice as ‘The Leech Effect’. The above reiterates the importance of entrepreneurship development for fuelling economic growth of a region.

Entrepreneurship begets and also injects entrepreneurship by starting a chain reaction when the entrepreneur continuously tries to improve the quality of existing goods and services and add new ones. E.g. when computers came into the market there was continuous improvement in the models, their functions etc. like first generation computers, personal computers, laptops, palmtops etc. Not only had this fostered the development of the software industry, computer education institutes, computer maintenance and stationery units etc. but also other industries like banking, railways, education, travel, films, medical and legal transcriptions, business process outsourcing [BPOs] etc. In this manner by harnessing the entrepreneurial talent a society comes out of traditional lethargy to modern industrial culture. India needs entrepreneurs to capitalize on new opportunities and to create wealth and new jobs.

1.4.2 ENTREPRENEURSHIP AND EDUCATION

Towards the end of the sixties, two significant contributions were made in the field of entrepreneurship .One was that there is a positive linkage between entrepreneurship and economic development and the other was regarding the emergence of a strong hypothesis that entrepreneurship can be developed through planned efforts¹. Consequently planners realized that absence of a strong entrepreneurial base acts as a serious handicap in the industrial development of a region. The identification and development of first generation entrepreneurs through Entrepreneurial Development Programmes is an important strategy.

There is a growing realization that presence of resources and favourable government policies cannot automatically manufacture economic development. It is the entrepreneurial spirit of the people, which can transform the economy of that region. Both the quantity and quality of entrepreneurs are of utmost significance for achieving the goal of economic development. The myth that entrepreneurs are born with some innate traits is fortunately no longer held. You will learn more about this in the lesson on motivation. Many research studies have brought out that entrepreneurship can be taught and learned. Entrepreneurship is a discipline and like all disciplines it has models, processes and case studies, which can help an individual to study this subject. The necessary competencies required of a successful entrepreneur can be acquired through training and development. Numerous courses in entrepreneurship are being taught all over the world in schools and colleges, seminars and conferences are being organized and EDPs are

¹ [Sharma K.M. ‘Economic Development in India, New Thrust on Small Scale Industries’, in Sammi Udin et.al. [ed.] *Entrepreneurship Development in India*. Mittal Publications, New Delhi 1990, p. 23]

being conducted. The thinking today is why just create managers why not create people who can absorb managers. One can acquire the traits and learn the skills for becoming an entrepreneur e.g. a person can learn to be achievement oriented, self- confident, perseverant etc. which are all part of the characteristics of a successful entrepreneur.

Usually the model used for entrepreneurial education has three phases:

Stimulatory Phase- This phase involves planned publicity for opportunities, motivation training and help and guidance in selection of product or service.

Support Phase- This provides help in registration of units, arrangement of finance as well as land, sheds, power, water, common facility centres etc. Help is also provided in marketing of products.

Sustenance Phase- Once the enterprise is set up then help is provided for modernization, diversification, additional finance etc.

Check your progress

Name two states each of India, which are highly developed and which are poorly developed in spite of being endowed with vast natural resources.

1.5 FUNCTIONS OF AN ENTREPRENEUR

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

1. **Innovation:** Innovation is one of the most important functions of an entrepreneur according to Schumpeter. An entrepreneur uses information, knowledge and intuition to come up with new products, new methods of reducing costs of a product, improvement in design or function of a product, discovering new markets or new ways of organization of industry. Through innovation, an entrepreneur converts a material into a resource or combines existing resources into new and more productive configurations. It is the creativity of an entrepreneur that results in invention [creation of new knowledge] and innovation [application of knowledge to create new products, services or processes.]

Systematic innovation means monitoring the following for innovative opportunity:

- i. **The unexpected success or failure or any unexpected outside event**, (e.g. when the IT bubble burst the ITES sector started growing.)
 - ii. **Innovation based on process need** [e.g. plate based cameras, film based cameras, digital cameras]
 - iii. **Changes in industry and market structure** [e.g. video cassette VCD, DVD, Blue ray disc]
 - iv. **Demographics changes** (e.g. increasing number of working women and nuclear families in most metropolitan cities)
 - v. **New knowledge** (e.g. Pentium chip)
2. **Risk and uncertainty bearing:** According to Hozelist an entrepreneur performs the function of risk and uncertainty bearing. Every decision pertaining to development of new products, adapting new technologies, opening up new markets involves risk. Decision-making in an environment of uncertainty requires anticipation of risk. Profit is said to be the reward for anticipating and taking such risks. However it is pertinent to mention that the entrepreneur is not a gambler, he only takes calculated risks. An entrepreneur develops the art of decision-making under conditions of uncertainty as a matter of survival.
3. **Organization building:** An entrepreneur has to organize men, material and other resources. He has to perform the functions of planning, co-ordination and control. He has to use his leadership qualities to build a team, generate resources and solve problems. With his organizational skills an entrepreneur builds an enterprise from scratch, nurtures it and makes it grow. His vision sows the seeds for a sound and vibrant organization and synergies are built in the enterprise.

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

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

Check your progress

List some unexpected event/change in government policy etc that can provide business opportunities.

1.6 ENTREPRENEUR vs. MANAGER RELATIONSHIP

Are all small entrepreneurs managers? Are all small business managers entrepreneurs? The terms entrepreneur and manager are many times used interchangeably yet they are different. An entrepreneur starts a venture then a manager takes over to organize and co-ordinate continuous production. An entrepreneur is being enterprising as long as he starts something new then the routine day-to-day management of the business is passed on to the manager. The main differences between the two are summed up below:

Entrepreneur	Manager
An entrepreneur is involved with the start-up process	A manager with running the business over a long period of time
An entrepreneur assumes financial, material and psychological risks	A manager does not have to bear risks
An entrepreneur is driven by perception of opportunity	A manager by the resources he currently possesses
An entrepreneur initiates change	A manager follows rules & procedures
An entrepreneur is his own boss	A manager is a hired employee
An entrepreneur gets uncertain rewards	A manager gets fixed rewards and salary

Figure 1.2 Differences between Entrepreneur and Manager

Peter Drucker claims that the process of entrepreneurship is directing the use of resources to progressive activities rather than for “administrative efficiencies”. This really clarifies the role of an entrepreneur from that of a manager. Please note that in most small businesses the entrepreneur who starts the venture also has

to perform the role of a manager in nurturing it and making it grow and managers frequently have to think of new ways to capture markets, face competition etc.

1.7 SUMMARY

In recent decades the role of an entrepreneur has been considered of very great significance in accelerating the pace of growth and economic development in both the developed and developing countries. An entrepreneur is a person who perceives opportunities, organizes the resources needed to exploit the opportunity and sets up an enterprise. The process of setting up an enterprise is called entrepreneurship. An enterprise is a business venture. It is an undertaking that involves uncertainty and risk as well as innovation. An individual has the right to choose any income generating activity or self-employment or entrepreneurship as a career option. Functionally income generating and self-employment activities are the initial stages of entrepreneurship.

The qualities of entrepreneurship and management are present in varying degrees in both managers as well as entrepreneurs. Yet entrepreneurs are different from managers. They create opportunities for innovation, experimentation and production. Once production begins managers take over. They are more concerned with organizing the routine day-to-day jobs. They do not prefer to take risks.

Entrepreneurship is a discipline with a knowledge-based theory. A person can learn and acquire the competencies of becoming an entrepreneur and start a venture and make it grow. So the myth that entrepreneurs are born and not made can safely be dispelled.

The most important functions of an entrepreneur are innovation, risk and uncertainty bearing and organization building. An entrepreneur usually has to perform all the functions of production, marketing, finance, human relations etc. especially at the time of start-up and establishing an enterprise.

Most entrepreneurs usually start a small venture and then make it grow. You will learn all about small business in the next chapter.

1.8 GLOSSARY

ATM Automatic Teller Machine, Money can be withdrawn from a bank by using an ATM card in the ATM machine

FD Fixed Deposit of money in a bank for a specified period

Innovator One who creates something new from knowledge- new products or markets or techniques?

N-Ach Need for Achievement is the strongest motivational need in an entrepreneur

Locus of Control The extent to which a person can influence their life and activities, an entrepreneur believes he himself is responsible for his circumstances rather than outside factors like luck etc.

Imitator Entrepreneur Unlike the innovator entrepreneurs found in developed countries who come up with something new-new products, processes, techniques etc, the imitator entrepreneurs reproduce the above in the developing economies

Intrapreneur These days all big businesses are encouraging their employees to become enterprising and they are called intrapreneurs

1.9 SELF ASSESSMENT QUESTIONS

1. Distinguish between wage-employment, income-generation and entrepreneurship.
2. Discuss the main functions of an entrepreneur.
3. Explain the role of entrepreneurship in economic development.
4. Distinguish between entrepreneurs and managers.
5. 'Entrepreneurs are born not made.' Comment.

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Website

www.smallindustryindia.com