CHAPTER: II

THE ENTREPRENEUR AND ENTREPRENEURSHIP:

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

Obviously, a comprehensive and unanimously acceptable definition of the word entrepreneur is yet to be adapted. For some, entrepreneurship denotes and economic endeavour requiring imagination, drive and creativity but for a large number of persons it is simply synonymous with self-employment regardless of the nature of activity. Borrowing a phrase that the late G.D.H. Cole long ago used for socialism, one can say that entrepreneurship as a concept has, like a hat, lost its shape because everybody uses it – and does so to suit his own peculiar fashion. In spite of that, nowadays this much too familiar term entrepreneur has become a synonym for another English word enterprise, with simply means one who undertakes an enterprise. However, combining some of the salient characteristics or traits, it may be said that the term entrepreneur specifies precisely a dynamic individual who has creative talents, takes initiative, assembles necessary resources, risk own money and fortune, undertakes a new venture, introduces in the market something new and useful and who is eventually rewarded with profit or loss.

There is generally no accepted definition or model of what entrepreneur is or does. Much of the literature of entrepreneur is fragmented and highly controversial. In the past decade, a number of trends have emerged which distinguish between individual entrepreneurship and corporate entrepreneurship and entrepreneur and small business owners. The literature abounds with criteria ranging from creativity, innovation, risk taking, high need achievement etc; to personal traits such as appearance and style.
Models of the entrepreneurial leader are almost as plentiful as the number of authors who write about them.¹

In the early 16th century in France, the term entrepreneur was used for army leader. It was applied to business for the first time in the 18th century, to designate a dealer who buys and sells goods at uncertain prices.²

During the early twentieth century, Dewing equated entrepreneur with business promoter and viewed the promoter as one who transformed ideas into a profitable business. In enumerating the characteristics of successful entrepreneur, Dewing wrote of the qualities of imagination, initiative, judgment and restraint.³

Casson⁴ in his work, having considered both functional definition and an indicative definition, describes an entrepreneur ‘as someone who specializes in taking judgmental decisions about the coordination of scarce resources.’

The ILO states, ‘entrepreneurs are the people who have the ability to see and evaluate business opportunities; to gather the necessary resources to take advantage of them; and to initiate appropriate action to ensure success.’⁵

In Danhof’s⁶ analysis, an entrepreneur “is primarily concerned with changes in the formula of production… over which he has full control… He devotes correspondingly little time to the carrying out of a specific formula”. Danhof divides the functions of the entrepreneur into three major roles; obtaining relevant information, evaluating the information with regards to profit, and setting the operation in motion. The major

emphasis in Danhof’s definition is decision-making, or judgment under alternative choices.

Cunningham and Lischerson in their work have described six possible schools of thought on entrepreneurship. The first school of thought i.e., ‘Great Person School’ says that an entrepreneur is born with an intuitive ability a sixth sense and this sense helps him in start – up stage. The second school of thought, i.e., ‘Psychological Characteristics School’ explain that entrepreneurs have unique values, attitudes, and needs which drive them and help them especially in the start – up stage. The third school, i.e., ‘Classical School of Thought’ says that the central characteristics entrepreneurial behavioral is innovation. This characteristic helps the entrepreneur much in start-up and early growth. ‘Management School’ is the fourth school of thought and it says that entrepreneurs are organizers of economic venture and they organize, own, manage and assume its risk. Such functional orientation helps them in early growth and maturity. The fifth school of thoughts is the ‘Leadership School’. According to this school, entrepreneurs are leaders of people and they have the ability to adopt their style to the needs of people. Such leadership personality suits them most during early growth and maturity situation. ‘Intrapreneurship School’ is the sixth school of thought. Intrapreneurship is the act of developing independent units, to create, market and expand services within the organization. Intrapreneurship is needed by an entrepreneur during the situation of maturity and change.\(^7\)

Whatever be the definition, across the world entrepreneurs have been considered instrumental in initiating and sustaining socio-economic development. There is enough evidence to believe that countries which have proportionately higher percentage of entrepreneurs in their population have developed much faster as compared to countries which have lesser percentage of them in the society, discover new sources of supply of materials and markets and they establish new and more effective forms of organizations. Entrepreneurs perceive new opportunities and seize them with super normal willpower and energy, essential to overcome the resistance that social environment offers.

\(^7\)Cunningham, J. Barton and Lischeron, Joe, Op. Cit.
The concept of entrepreneurship in the study of economic development first appeared in the 18\textsuperscript{th} century. Since then economists, psychologists, sociologists, social psychologists, anthropologists and Historians have been attempting to analyse entrepreneurship, but no consensus has so far emerged. The concept still remains controversial and vague.\textsuperscript{8} The scholars have varying opinions regarding what qualities and abilities a person should process to become an entrepreneur, what his main functions are, what roles he plays in economic development, how an entrepreneurial class can be developed and so on.

William Baumol observed that the subject of entrepreneurship is conceptually elusive and the term has not always had clear theoretical contents.\textsuperscript{9}

Academicians have provided a plethora of definitions of the term entrepreneur which bring about the different aspects of his economic functions and reflect the state of business enterprise of the times in which each of these was formulated. Some thought of entrepreneurs primarily as innovators, others thought of them as bearers of risk and others again placed major emphasis on their function as mobilisers and allocators of capital. These definitions can be grouped into following broad categories:

1. Classical views
2. Neo-classical views
3. Modern views

\textbf{(1) Classical Views:}

The term entrepreneur was first coined by Cantillon, a French Banker, in the mid of 18\textsuperscript{th} century. He defined an entrepreneur as the agent who buys means of production at certain prices in order to combine them into a product which he is going to sell at

\textsuperscript{8} Visualising the diversity in views about the concept of entrepreneur, Peter Kilby has very aptly made a quip when he linked the entrepreneur with a rather large and very important animal called “Haffalump” hunted by many individuals, but all unable by many individuals, but all unable to capture him. All claim to have seen him and have variously described him, but wide disagreements still exist among them on his particularities. Vide, Killby, Peter, “Hunting the Haffalump” Entrepreneurship and Economic Development ed., Peter Killby, The Free Press, New York, 1971, pp. 1-30.

prices that are uncertain. According to Cantillon, the function of an entrepreneur is to work in an uncertain atmosphere. He observed entrepreneur as a kind of person who is engaged in production activities and makes certain payments to the owners of production factors in expectation of uncertain receipts. His entrepreneur was mainly an uncertainty – bearer.\textsuperscript{10} Cantillon’s view was criticized on the ground that he emphasized much on the element of risk and uncertainty and did not include many other aspects of entrepreneurship in his perception.

Frank Knight defined entrepreneurship on similar lines. He described entrepreneur as a person who takes decisions under the conditions of ‘risk’ and ‘uncertainty’. He meets those risks which are incalculable. Knight made a distinction between ordinary risk and uncertainty. A risk which can be covered through insurance is an ordinary risk. On the other hand, uncertainty is the risk which can neither be evaluated, nor insured. In the word of Pro. Knight, entrepreneur is the economic functionary, who undertakes such responsibility as by its very nature cannot be insured, nor capitalized, nor salaried; he also guarantees specified sums to others in return for assignments made to them.\textsuperscript{11}

Entrepreneurship appears in the writings of Adam Smith also but not explicitly. For him, an entrepreneur is the undertaker, the master or the merchant. To Smith, accumulation of capital was essential function of the undertaker, the master, or the merchant. He accumulates capital and with this capital acquires command over land, and then hires labour to work on land. By initiating this round about process of production he takes risk. But beyond this, all he does is to supervise and manage his concern in a way to yield the maximum gain to himself. Here we get into the difficulty of distinguishing the entrepreneur from the affluent capitalist or the efficient manager.

J. B. Say identified entrepreneur as an ‘organiser’. He was first who focused on this very aspect of entrepreneurship. Say drew a clear-cut distinction between the ‘entrepreneur’ and the ‘capitalist’. According to him, “the entrepreneur is an


economic agent who unites all means of production... the labour force of the one, he
capital or the land of the other and who finds in the value of products, which result
from their employment, reconstitution of the entire capital that he utilizes and the
value of the wages, the interest and the rent which he pays as well as profits belonging
to himself.\textsuperscript{12}

Thus, J. B. Say's entrepreneur combines various factors of production and produces a
socially valuable product. He emphasized that the role of a capitalist is to finance the
enterprise whereas an entrepreneur is an organizer and speculator of a business
enterprise. Say put the entrepreneur into the centre of both the productive and
distributive theory which first adumbrated the analytical structure that became fully
articulate in the hands of Walras, Marshall, Wicksell, Clark and Austrians.\textsuperscript{13}

J. S. Mill was influenced by the thoughts of J. B. Say. In the analysis of
entrepreneurial functions he laid much emphasis on “superintendence”, ‘control’ and
‘direction’. An entrepreneur, according to him, should possess ‘no ordinary skill’ to
discharge these functions efficiently. But his definition simply defines the functions of
management and administration and his entrepreneur is merely a manager. A reason
why he did not use this term was possibly that managers are frequently salaried
employees and they do not necessarily share in business risks, where as J. S. Mill like
many other authors of that period... wished to make risk-bearing an important
entrepreneurial function along side of “direction”.\textsuperscript{14}

From the above definitions, it is obvious that classical economists did not include
entrepreneurship explicitly in the economic system. They did not even use the term
entrepreneur while formulating economic theories but described him and his function
by proxy. They were, of course, aware of the role of entrepreneurship in the economic
development, but did not make it a strategic part of the system, and did not make the
fundamental distinction between entrepreneurship and management.

\textsuperscript{12}Say, J. B. Catechism of Political Economy, pp. 28-29.
\textsuperscript{14}Marshall, A., Principles of Economics, pp. 270-290.
(2) Neo - Classical Views:

Entrepreneurial thoughts of this category developed largely on the lines of the older generation. However, a distinction between entrepreneur and capitalists was facilitated clearly during this period. Changing methods of business finance produced an increasing number of instances in which capitalists were not entrepreneurs and entrepreneurs were not capitalists. Of course, in some cases, both the capitalists and entrepreneurs were carrying out the same functions.

Walras defined entrepreneur as an agent who buys raw materials from other entrepreneurs, hires land from land owners, personal aptitude from workmen, capital goods from capitalists and sells the products that results from this co-operation or combination of these services for his account.\(^{15}\) An analysis of his viewpoint reveals that he recognized entrepreneur as an organizer who combines all factors if production for the fulfillment of productive process and ignored one of the most important aspects of entrepreneurship, i.e., risk bearing and working in uncertain atmosphere without which it is not possible to make any significant breakthrough in the course of time. The entrepreneur is a dynamic person with atavistic will. He endeavors to deviate and brings about revolutionary change in economic system.

Alfred Marshall defined entrepreneurship in a comprehensive manner and assigned risk bearing and management as the main functions of the entrepreneur. According to him, “entrepreneur is an individual who ‘adventures’ or ‘undertakes’ risks, who brings together the capital and the labour required for the work; who arranges or engineers its general plan, and who superintends its minor details.”\(^{16}\)

Marshall was criticized on the ground that his concept of entrepreneurship was that of a small firm where entrepreneur was an individual person while in a very big enterprise, entrepreneur along with others govern the enterprise who are not only risk takers or manager but also promoters and innovators. In modern business, an entrepreneur may be an organization of people, trust, company or even the


Government. In many countries, including India, The Government is also playing a considerable role in the promotion of business and industries.

All the economists right from Cantillon to Marshall visualized entrepreneurship in the context of stationary situation. It was Joseph Schumpeter who analysed the theory of entrepreneurship from a new perspective. According to him, development is the burst of economic activities. When the stationary equilibrium is disturbed, development takes place. This change or disturbance comes forth in the firm of “Innovation”. For Schumpeter, the entrepreneur is an ‘Innovator’ who is characterized by potentialities of doing new things or doing things in a new way. He is an economic leader with atavistic will to power and sets a ‘creative response’ to a situation and acts as a chief conducive factor in the process of economic development. He further writes that the entrepreneur is an ‘economic man’ who tries to maximize his profits by innovations. Innovations involve problem solving and entrepreneur is problem solver.

Innovations according to him, occur in the following five forms:

1. The introduction of new goods – that is, one with which consumers are not yet familiar or of a new quality of goods.
2. The introduction of a new method of production – that is, one which is not yet tested by experience in the branch of manufacturing 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.
3. The findings of a new market, a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before.
4. The conquest of a new source of supply of raw materials or half manufactured goods, irrespective of whether this source already exists or whether it has first to be created.
5. The currying out of the new organisation of any industry, like the creation of monopoly position or breaking up of a monopoly position.\(^{17}\)

Thus, according to Schumpeter, entrepreneur is a person who foresees the opportunity and tries to exploit it by introducing a new product, a new method of production, a

new market, a new source of raw materials or a new combination of factors of production. He need not be a capitalist, nor manager. In Schumpeter’s words, entrepreneurship is a leadership rather than an ownership.

Schumpeter makes a distinction between invention and innovation. He says that inventions and discoveries by themselves have little economic effects. They could yield fruitful results only when someone with special talent foresees their economic potentiality and bring them into implementation. An inventor thus produces the ideas and the entrepreneur implements them in the production process.

Schumpeter’s concept of entrepreneurship carries broad as well as narrow meaning. It is broad in the sense that entrepreneur are not only those ‘independent’ businessmen, but all those who are ‘dependent’ employees in a company, like manager, directors and others as they may also bring about changes in the production function and carry out new combinations. On the other hand, it is narrow in so far as it does not include all needs of firms or managers or all industrialists and employees who operate an established business. It refers only to those who actually perform innovative functions. In Schumpeter’s system, entrepreneurship being a ‘creative activity’, is not generally found in the ordinary course of business. It is essentially a phenomenon that comes under the wider aspect of leadership.

Schumpeter expressed his views originally in 1912, at a time when most entrepreneurial performance was in the hands of private individuals acting on their own account and when governmental and private bureaucracies still played a subordinate and limited role in the running of economically significant enterprises. Since the time, Schumpeter expressed his vies, there have been remarkable changes in the industrial sphere of the world. In the industrially developed countries, the big corporations and other highly structured business enterprises have emerged to perform the main entrepreneurial functions. Likewise, public officials working in government enterprises of government-controlled corporations have begun to carry these functions in the socialist countries and in many important branches of production in the developing countries.

Hence the individual, “irrational”, visionary entrepreneur whom Schumpeter saw as the main carrier of economic progress has been replaced by a private or public “business leader”, whose action is based largely on known and predictable principles,
whose risk-taking has been greatly reduced and whose activities are supported by a large corporate or government bureaucracy among which many functions have been thoroughly routinised so as to make the performance of the typical, entrepreneurial function stipulated by Schumpeter either impossible or superfluous.

Asim Chaudhary suggests that Schumpeter’s conception of entrepreneurship must be modified in the light of concrete developments in the last few decades, especially in the less advanced countries of Asia and Africa. Scarcely any of the business leaders in these countries are innovators in Schumpeter’s sense and none of them are visionaries who strike out for previously unexplored territory. All of them are imitators, adapters of experiences gained in the economically more advanced countries to the conditions of their own. The technology they apply is usually borrowed from abroad, the legal and marketing practices they employ are adaptations of those developed in the more advanced countries, and often the commodities they produce and sell are selected because of the operation of the “demonstration effect” through which consumption of the more advanced countries become popularized and enter general demand in developing nations.18

Many other economists also criticized Schumpeter on the ground that entrepreneurship in Schumpeterian sense causes complete transformation of the economy but practically, this can be applied only to the developed countries and in very big industries where the entrepreneurs are of very high level and are ready to undertake the major process of development in an efficient manner. James J. Berna has aptly mentioned that “economy shaking innovators are the exceptional few who emerge at the summit of broadly based pyramid. Such men do not appear, and could not function, until a certain level of educational, social and technical progress had been achieved.”19

In brief, developing countries cannot afford the ‘Schumpeterian entrepreneurs’ whose scale of operation is not very large. Entrepreneurs of such countries cannot start their ventures on a big scale from the very beginning. Apart from it, innovations

themselves involved a huge amount of money and take a long time in their implementation. Developing countries, therefore, need a large number of ‘imitating entrepreneurs’ who can successfully import the innovations made in developed countries and implement them economically in their enterprises after making necessary adjustments therein.

Hoselitz also remarked that in an underdeveloped economy, imitator-entrepreneur had more significant role to play than the Schumpeterian innovators. They provide, he feels, a fillip to the process of economic growth, sometimes having as strong or perhaps even stronger an impact on economic growth as real or alleged innovations. Even the multiplicity of entrepreneurs, lacking in creative genius of inventors, but possessing all other characteristics of successful entrepreneurs is desirable for underdeveloped economies.20

(3) Modern Views:

The various definitions of entrepreneur in past came from the academicians of developed nations and at a time, when the problems of the Third world had not received so much attention. These definitions were formulated keeping in view the entrepreneurs of developed countries whose scale of operations was large and who were expected to perform only limited entrepreneurial tasks. The theoreticians took a very restricted view of entrepreneurial functions and thought that these would not change for time, and scale of operation.

Modern scholars have developed a practical approach in understanding the concept of entrepreneurship. They have taken into consideration the existing conditions of developing countries. The entrepreneurs in developing countries often face problems like imperfect market and shortage of skilled labour and capital etc.. The entrepreneurs of such countries cannot afford to have large scale operations at the inception level, nor can they restrict themselves to any one or two of the entrepreneurial tasks instead. The entrepreneurs of developing countries have to perform multiple functions to run enterprise successfully.

Dr. J. E. Stepanek writes that “entrepreneurship is the capacity to take risk, ability to organize and desire to diversity and make innovations in the enterprise.”\(^{21}\) According to Higgins “entrepreneurship is meant for the function of seeing investment and production opportunity, organizing in enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw materials, finding site, introducing a new technique and commodities discovering new sources of raw materials and selecting top managers for day-to-day operation of the enterprise.”\(^{22}\)

Prof. Tandon has aptly defined entrepreneur as “an especially talented and motivated person who undertake the risk of a business by arranging and combining the factors to establish it and who sees and visualizes opportunities for introducing and accepting the new ideas with regard to production technique, nature of products, form of organization, acquisition of new managerial personnel, change in administrative organisations, new sources of plans for the expansion of the enterprise. He need not be a person who employs his own capital; he need not be a scientist who produces machines. But he is a person who knows the art of changing the production function for using the economic potential of various factors of production.”\(^{23}\)

Evens says that entrepreneurs are the persons who imitate, organize and control the affairs of the business units and combine the factors of production to supply goods and services whether the business pertains to industry, trade or profession.\(^{24}\)

According to H. N. Pathak, “entrepreneurship involves a wide range of areas on which series of decisions are required, which can be broadly grouped into three categories, viz., relating to (i) perception of an opportunity, (ii) organizing an industrial unit and (iii) running the industrial unit as a profitable, going and growing concern.”\(^{25}\)

Peter Kilby envisaged that entrepreneurship, in an underdeveloped economy, involves a wide range of activities which include, inter alia, perception of market opportunities,

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\(^{22}\) Quoted in Tandon, B.C., Environment and Entrepreneur, Chugh Publication, Allahabad, 1975, page-43.

\(^{23}\) Tadon, B.C., op. cit., page-42.


combining and managing the factors of production and introduction of the production technique and products. He writes that it is a known fact that a vast majority of firms, in underdeveloped countries, are of small and medium size, and factor input markets are also underdeveloped. Therefore, the demands placed upon the entrepreneurial unit are considerably more expensive in low-income as compared to high income economies. Thus, the entrepreneurial roles may encompass all activities from the perception of economic opportunity to the external advancement of the firm in all its aspects. Certain tasks demand the entrepreneur’s critical attention, whereas others call for little, and can be safely delegated to subordinates.  

In nutshell, entrepreneurship involves a whole range of aptitudes and capabilities of an enterprising person like the capacity to bear risks, to forecast prospects of an enterprise, to organize various factors of production, to manage various affairs of the business, to innovate or imitate new things, confidence and competence to meet unforeseen and adverse situation, etc.

An entrepreneur is the person who promotes a new venture, raises the where withal for it, assembles the factors of production, handles various managerial affairs and sets the business growing profitably.

While it has become widely acknowledge that entrepreneurship is a vital force in the economies of developed countries, there is little consensus about what actually constitutes entrepreneurial activity. Scholars have proposed a broad array of definitions, which when operationalize, have generated a number of different measures (Hebert and Link, 1989). Herbert and Link (1989) have identified three distinct intellectual traditions in the development of the entrepreneurship literature. These three traditions can be characterized as the German Tradition, based on Von Thuenen and Schumpeter, the Chicago Tradition, based on Knight and Schultz, and the Austrian Tradition, based on Von Mises, Kirzner and Shackle. The Schumpeterian tradition has had the greatest impact on the contemporary entrepreneurship literature. The distinguishing feature from Schumpeter is that entrepreneurship is viewed as a

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disequilibrating phenomenon rather than an equilibrating force. In his 1911\textsuperscript{28} classic treatise, Theory of Economic Development, Schumpeter proposed a theory of \textit{creative destruction}, where new firms with the entrepreneurial spirit displace less innovative incumbents, ultimately leading to a higher degree of economic growth. Even in his 1942 classic, Capitalism and Democracy, Schumpeter (p. 13) still argued that entrenched large corporations tend to resist change, forcing entrepreneurs to start new firms in order to pursue innovative activity: “The function of entrepreneurs is to reform or revolutionize the pattern of production by exploiting an invention, or more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way...To undertake such new things is difficult and constitutes a distinct economic function, first because they lie outside of the routine tasks which everybody understand, and secondly, because the environment resists in many ways.”

Despite the Schumpeterian emphasis on the process of starting a new enterprise as the defining entrepreneurial activity, there is no generally accepted definition of entrepreneurship for the developed countries of the OECD\textsuperscript{29} (OECD, 1998). The failure of a single definition of entrepreneurship to emerge undoubtedly reflects the fact that it is a multidimensional concept. The actual definition used to study or classify entrepreneurial activities reflects a particular perspective or emphasis. For example, definitions of entrepreneurship typically vary between the economic and management perspectives. From the economic perspective, Hebert and Link (1989) distinguish between the supply of financial capital, innovation, allocation of resources among alternative uses and decision-making. Thus, an entrepreneur is someone encompassing the entire spectrum of these functions: “The entrepreneur is someone who specializes in taking responsibility for and making judgemental decisions that affect the location, form, and the use of goods, resources or institutions” (Hebert and Link, 1989, p. 213).

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By contrast, from the management perspective, Sahlman and Stevenson\(^{30}\) (1991,p.1) differentiate between entrepreneurs and managers in that, “entrepreneurship is a way of managing that involves pursuing opportunity without regard to the resources currently controlled. Entrepreneurs identify opportunities, assemble required resources, implement a practical action plan, and harvest the reward in a timely, flexible way.”

The most prevalent and compelling views of entrepreneurship focus on the perception of new economic opportunities and the subsequent introduction of new ideas in the market. As Audretsch (1995)\(^{31}\) argues, entrepreneurship is about change, just as entrepreneurs are agents of change; entrepreneurship is thus about the process of change. This corresponds to the definition of entrepreneurship proposed by the OECD, “Entrepreneurs are agents of change and growth in a market economy and they can act to accelerate the generation, dissemination and application of innovative ideas….Entrepreneurs not only seek out and identify potentially profitable economic opportunities but are also willing to take risks to see if their hunches are right” OECD, 1998, p. 11).

**NKC ON ENTREPRENEURSHIP:**

Given the increasing significance and visible impact of entrepreneurship in wealth-creation and employment-generation, National Knowledge Commission considers it critical to India’s growth and development.

NKC defines entrepreneurship as follows:

‘Entrepreneurship is the professional application of knowledge, skills and competencies and/or of monetizing a new idea, by an individual or a set of people by launching an enterprise de novo or diversifying from an existing one (distinct from seeking self employment as in a profession or trade), thus to pursue growth while generating wealth, employment and social good.’\(^{32}\)

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Considering its importance, NKC has undertaken a study on entrepreneurship to explore factors that have promoted entrepreneurship in India as well as others which could further encourage and facilitate even greater growth of entrepreneurship in the country. The NKC study has found that entrepreneurship flourishes as a result of a combined input of some key ‘triggers’ such as a helpful business environment, access to early stage finance, education, individual motivation and some socio-cultural factors.

To accelerate the growth of entrepreneurship in the country would require the support of multiple stakeholders such as the government, the financial institutions, educational institutions, incubator providers, chambers of commerce, entrepreneurial networks and associations as well as family and the larger community.

FIGURE: 2.1

ENTREPRENEURIAL PROCESS

THE DETERMINANTS OF ENTREPRENEURSHIP:

(1) AN ECONOMIC FRAMEWORK:

To understand how public policy can be implemented to promote entrepreneurship, Audretsch et al. 33 (2002) introduced a framework for analyzing the determinants of entrepreneurship. This framework is useful for not only why the degree of entrepreneurship varies across regions and countries, but also in identifying the different ways that public policy can be implemented to increase the amount of entrepreneurial activity.

Entrepreneurship is shaped by many factors, spanning a spectrum range of determinants, ranging from economic to historical, psychological, social, cultural and political. Certainly no single research discipline can claim a monopoly to understanding entrepreneurship. For example, the field of psychology has focused on motives and character traits of entrepreneurs and potential entrepreneurs. Sociology has examined the (collective) background of entrepreneurs.

The framework introduced here focuses on the distinction between factors shaping the supply of entrepreneurial activities and those influencing the demand for entrepreneurial activities. The demand for entrepreneurship reflects the opportunities to engage in entrepreneurial activity. It recognizes that the opportunity for individuals and firms to engage in entrepreneurial activity is not at all fixed, but rather varies considerably across regions and countries.

By contrast, the supply of entrepreneurship is shaped by characteristics of the population, including the demographic composition, educational attainment, incomes levels and degree of unemployment, and cultural norms. In particular, the resources and capabilities of individuals along with their attitudes towards entrepreneurship are key factors in influencing the supply of entrepreneurship. Both cultural and institutional factors help shape the supply side. Institutional factors include access to finance, administrative burdens, and the degree of taxation.

The framework for analyzing entrepreneurship is depicted in Figure. This show that the interaction of the supply and demand factors for entrepreneurship help to shape the risk-reward profile of individuals. The framework emphasizes that while entrepreneurship is embedded into a broad range of social, economic, political and cultural factors, ultimately it is individuals who make a choice whether or not to engage in entrepreneurial activities. Given all of the factors from both the supply and demand sides, individuals weigh the perceived risks and rewards from engaging in entrepreneurship. As a result, they may choose to enter into entrepreneurship or not to, or even to exit from entrepreneurship.
The actual rate of entrepreneurship (E) is determined by both macro and micro factors. The supply side generates (potential) entrepreneurs that take advantage of entrepreneurial opportunities, to the degree that they have the resources, abilities and personal characteristics to engage in entrepreneurial activity. Entrepreneurial opportunities, which are created on the demand side, are generated by the types of goods and services demanded on the market. An advantage of this framework is that it combines both environmental, or macro, conditions with individual (micro) characteristics.

The risk-reward profile represents the process of weighing alternative types of employment and is based on the opportunities presented by the demand side and the resources and abilities presented by the supply side. The occupational choices of individuals are made on the basis of their risk-reward profile of entrepreneurship when compared to that presented by alternative forms of employment, such as wage employment or unemployment.

If the actual degree of entrepreneurship, E, deviates from the targeted degree of entrepreneurship, E*, government policies may be undertaken to alter the basic forces shaping entrepreneurial activity. In Figure, such entrepreneurship policies are implemented by changing the different components shaping either the demand side, the supply side, or else the risk-reward profile directly.
Figure depicts five particular types of entrepreneurship policy. The first type, G1, promotes entrepreneurship by altering the factors shaping opportunity for entrepreneurship. Such policies include the deregulation of entry into markets, the privatization of many services, access to government procurement programs, promoting firm linkages and clusters, and access to global value chains.

G2, G3 and G4 promote entrepreneurship by altering the factors shaping the supply side. Such policies focus on promoting the capabilities of individuals and firms and facilitating access to resources. In particular, this involves increasing the supply of potential entrepreneurs through immigration and diversity policies which facilitate the participation and access by previously excluded minorities (G2). A different type of policy involves enhancing the skills and capabilities of individuals, through education and training, or by provision micro-credit or other types of finance (G3). Policies designed to improve the view towards entrepreneurial activity, including promotional campaigns using the media and the educational system, are represented by G4.

Entrepreneurship policy can also change the risk-reward profile directly. Examples of such policies include taxes, subsidies, labor market rules and bankruptcy regulation (G5).

While the demand side focuses on the opportunities for enterprises and individuals in a developing country to invest in, develop, pursue and ultimately implement entrepreneurial strategies, the supply side focuses on the capabilities and capacity for such entrepreneurial strategies to be developed and implemented. Some of these capabilities and capacities are based on characteristics of the underlying population, some of these emanate from the skill and technological capabilities; and some are based the ability of firms and individuals to access ancillary resources, such as finance, inputs and external markets.

(2) THE INDIVIDUAL:

One important unit of observation for analyzing the determinants of entrepreneurship has been at the level of the individual. These studies have crossed a broad spectrum of academic disciplines, ranging from psychology to sociology and economics. While the early studies centered in North America, they have also been duplicated and extended to Europe.

Within the economics literature, the prevalent theoretical framework has been the
general model of income choice. The model of income choice dates back at least to Knight (1921), but was more recently extended and updated by Lucas (1978), Kihlstrom and Laffont (1979), Holmes and Schmidt (1990) and Jovanovic (1994). In its most basic rendition, individuals are confronted with a choice of earning their income either from wages earned through employment in an incumbent enterprise or else from profits accrued by starting a new firm. The essence of the income choice is made by comparing the wage an individual expects to earn through employment, $W^*$, with the profits that are expected to accrue from a new-firm startup, $P^*$. Thus, the probability of starting a new firm, $Pr(s)$, can be represented as

$$Pr(s) = f(P^* - W^*)$$

The model of income choice has been extended by Kihlstrom and Laffont (1979) to incorporate aversion to risk, and by Lucas (1978) and Jovanovic (1994) to explain why firms of varying size exist, and has served as the basis for empirical studies of the decision to start a new firm by Blau (1987), Evans and Leighton (1989a, 1989b, 1990), and Evans and Leighton (1990), among others.

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Empirical tests of the model of income choice have focused on personal characteristics with respect to labour market conditions. For example, using U.S. data, Evans and Leighton (1989a, 1989b and 1990) link personal characteristics, such as education, experience and age, as well as employment status, of almost 4,000 white males to the decision to start a new firm. Other studies, such as Bates (1990), also using U.S. data, and Blanchflower and Meyer (1994), emphasize human capital in the income choice. This approach places particular emphasis on the employment status of individuals in making the income choice. Certain ambiguities exist in linking unemployment to the decision to start a new firm (Storey, 1991). In particular, Storey (1991) observed that consistent results tended to emerge from cross-section studies, just as consistency is found in time series analysis. That is the discrepancy in results appeared to be along the lines of methodology, i.e., whether a time series or cross-sectional approach was undertaken. Storey (1991, p. 177) concludes that, “The broad consensus is that time series analysis point to unemployment being, ceteris paribus, positively associated with indices of new firm formation, whereas cross-sectional, or pooled cross-sectional studies appear to indicate the reverse. Attempts to reconcile these differences have not been wholly successful. They may reflect possible specification errors in the estimating equations, since none include all the independent variables which have been shown to be significant in the existing literature. In particular we suggest that more attention is given to the issue of taxation, savings and state benefits than has been the case in the past.”

Evans and Leighton (1990) found unequivocal evidence that, for U.S. young white males, the probability of starting a new firm tends to rise as a worker loses his job. In

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the European context, Foti and Vivarelli\textsuperscript{46} (1994) analyze self-employment data in Italy and find that unemployment has a positive impact entry into self-employment. Ritsila and Tervo\textsuperscript{47} (2002) use panel data models and micro-level data at the level of the individual to link three different levels of unemployment – at the level of the country, the region and for the individual, to the decision to start a new firm for Finland between 1987-1995. Their results suggest the existence of a positive and non-linear effect of personal unemployment on the likelihood of an individual to become an entrepreneur. However, as for the national unemployment rate, the relationship is reversed – low unemployment and high levels of macro economic growth increase the likelihood of starting a new firm. The evidence linking regional unemployment to the likelihood of starting a new firm is ambiguous.

De Wit and van Winden\textsuperscript{48} (1989) analyze a panel data started of individuals making decision between employment and self-employment in the Netherlands. Their main findings suggest that the probability of self-employment is positively influenced on the earnings differential between self-employed and wages from employment, having a relatively high score on an IQ test applied at the age of 12, and the employment status of the father (being self-employed).

A series of studies (Klandt, 1984 and 1996; Kulicke, 1987; and Boegenhold, 1985)\textsuperscript{49} have identified fundamental characteristics possessed by the typical German entrepreneur who starts a new firm (Gruender). These studies have consistently identified the start-up decision to be based on these entrepreneurial characteristics.

\textsuperscript{46}Foti, Alessandro and Marco Vivarelli, 1994, “An Econometric Test of the Self-Employment Model: The Case of Italy,” Small Business Economics, 6(2), April, 81-94.


\textsuperscript{49}Klandt, H., 1984, Aktivitaet und Erfolg des Unternehmungsgruenders, Bergisch Gladbach: J. Eul


According to these studies, the character profile of German entrepreneurs varies considerably from their countrymen who choose to remain employed by a firm or the government. Among the most prominent entrepreneurial characteristics is independence. Entrepreneurs generally place a higher value of independence in career than those people who do not start new firms. Similarly, responsibility and leadership rank very highly in entrepreneurs when compared to the general population.

Using data from the United Kingdom, Westhead and Birley\textsuperscript{50} (1995) find that owner-manager characteristics at startup, including human capital factors, do not have much influence on the employment growth of the firm.

A study by the ADT\textsuperscript{51} (1998) found that the number of spin offs from research institutes has increased dramatically in Germany, from 30 in 1990 to 167 in 1997. The study classifies scientific workers at the main German scientific research institutes as being either a “potential entrepreneur” or not a potential entrepreneur. The work values for potential entrepreneurs working at scientific research institutes differ considerably from their colleagues who are not classified as being a potential entrepreneur. Potential entrepreneurs place a higher value on being responsible for their own future, having a position of responsibility, having less of a hierarchical organization, and independence than do those scientific workers with no entrepreneurial interest. By contrast, the potential entrepreneurs place less of an importance on the work values of a secure income and a secure pension than do those with no entrepreneurial potential.

Colombo and Delmastro\textsuperscript{52} (2001) examine the characteristics of high-tech entrepreneurs in Italy. In particular, they identify differences in the characteristics found between the internet sector and other ICT industries. Their findings suggest that entrepreneurs who started firms in internet based businesses are systematically younger than their counterparts in other ICT industries.


Klofsten and Jones-Evans\textsuperscript{53} (2000) compare academic entrepreneurship, or the process by which professors and university researchers start and develop technology based firms in the European context. They find that personal characteristics such as gender, age, previous entrepreneurial experience, work experience and the university environment all contribute to academic entrepreneurial activities in Sweden and Ireland.

(3) THE (NEW) FIRM:

A different strand of literature, primarily in economics, has focused on the determinants of new-firm startups. These studies have typically been at the industry level of aggregation and have tried to link industry-specific factors to startup rates. Early studies, mostly done in the North American context, tried to identify a link between measures of entry barriers, such as the extent of scale economies, advertising intensity, R&D, and capital requirements and entry into industries. These studies, found primarily in the industrial organization literature within economics, reached mostly inconclusive and ambiguous results (Geroski\textsuperscript{54}, 1995). The only industry-specific characteristic that was consistently related to entry was industry growth. Audretsch\textsuperscript{55} (1995) attempted to reconcile these ambiguous results through an evolutionary lens. What had been assumed to constitute a barrier to entry was actually more of a barrier to growth and survival.

A wave of studies has also been undertaken linking new-firm startup activity to industry-specific characteristics within the European context. While some of these studies (Fotopoulos and Spence\textsuperscript{56}, 1997) follow the earlier American methodology of only measuring net entry (in their case, Greece), other studies actually analyze new-firm startups. For example, Wagner\textsuperscript{57} (1994) has found that the industry environment


plays an important role in shaping the amount of entrepreneurial activity in Germany. Based on a longitudinal database between 1979 and 1989, he finds that the startup of new small firms tends to be greater in those industries experiencing high growth and which are highly concentrated. He finds that startup activity is not significantly influenced by the importance of capital intensity and R&D in the industry. These non-significant statistical results are important because they suggest that entrepreneurs are not deterred from starting new firms even in industries which are capital intensive and where R&D plays an important role.

(4) THE SPATIAL LEVEL – CITIES & REGIONS:

An important strand of literature has developed linking entrepreneurship activity to characteristics specific to a spatial unit of observation, typically the city or region. This literature emerged first in the regional studies field (Reynolds, Storey and Westhead58, 1994), but recently has expanded to geography and economics as well. In proposing a new theory of economic geography (Krugman, 199159, p. 5) asks, “What is the most striking feature of the geography of economic activity? The short answer is surely concentration...production is remarkably concentrated in space.” What explains such an asymmetric distribution of economic activity? Here Krugman(1991), along with Romer60 (1986), is unequivocal – the existence of increasing returns to scale in production. By increasing returns, however, Krugman and Romer do not necessarily mean at the level of observation most familiar in the industrial organization literature – the plant, or at least the firm – but rather at the level of a spatially distinguishable unit, say a region or area. In fact, it is assumed externalities across firms and even industries that yield convexities in production. In particular, Krugman (1991) focuses on convexities arising from spillovers from (1) a pooled labour market; (2) pecuniary externalities enabling the provision of non traded inputs to an industry in a greater variety and at lower cost; and (3) information or technological spillovers. The contemporary theories linking geography to

entrepreneurship are based on these three factors, but in particular the role that spillovers play. These theories are important because they help to explain why a predominant amount of startup activity occurs within geographic clusters.

Most of these studies have focused on new-firm startup activity as a measure of entrepreneurship. This has generated a series of studies trying to identify those geographic-specific characteristics conducive to new-firm startups. The focus of this literature has been on the impact of regional characteristics, such as the unemployment rate, population density, population growth, levels of labor skills and human capital, and enterprise structure on startup rates.

For example, the collection of European country studies included in the special issue of Regional Studies on “Regional Variations in New Firm Formation” (Reynolds, Storey and Westhead, 1994), along with the survey by Storey61 (1991) suggest that the empirical evidence has been generally unambiguous with respect to the findings for population density (a positive impact on startup rates), population growth (positive impact on startup rates), skill and human capital levels of the labor force (positive impact), and mean establishment size (negative impact on startup rates). By contrast, the empirical evidence about the impact of unemployment on startup rates is considerably more ambiguous.

Audretsch and Fritsch62 (1994) examined the impact that location plays on entrepreneurial activity in (West) Germany. Using a data base derived from the social insurance statistics, which covers about 90 percent of employment, they identify the birth rates of new startups for each of 75 distinct economic regions. These regions are distinguished on the basis of planning regions. They find that, for the late 1980s, the birth rates of new firms are higher in regions experiencing low unemployment, which have a dense population, a high growth rate of population, a high share of skilled workers, and a strong presence of small businesses.


Similarly, Pfirrmann\textsuperscript{63} (1994) has found that the innovative activity of small- and medium-sized firms in West Germany is shaped by regional factors. He uses a database consisting of innovative small and medium-sized firms and finds that the innovative activity of small- and medium-sized enterprises tends to be greater in those regions where there is a strong presence of knowledge resources. However, his results also indicate that factors internal to the firm are more important for the innovation efforts of a small firm than is the regional environment.

\textbf{(5) THE ROLE OF KEY FACTORS:}

\textbf{(A) Finance:}

A growing literature on both sides of the Atlantic has focused on the role that access to finance plays in determining entrepreneurship.

\textbf{(B) Taxes and Administrative Burden:}

Taxes can serve as a barrier to entrepreneurship. A number of studies have identified that taxes have a negative impact on the startup, survival, growth and general viability of businesses within a European context (Rees and Shah\textsuperscript{64}, 1994; Poutziouris et al., 2000). Poutziouris et al.\textsuperscript{65} (2000) provide evidence that the tax burden of small firms exceeds that of their larger counterparts. This is particularly exacerbated in high technology sectors. Their study, based on data from the United Kingdom, shows that small high technology companies pay proportionately higher taxes, as a percentage of total assets than do their low-technology counterparts. They conclude that the British tax system disproportionately affects the financial development of high-tech startups and constrains their growth potential. Storey\textsuperscript{66} (1994) points out that since investment capital for expanding business is primarily generated through retained profits, taxation reduces the funds available to small business owners for investment.


A different factor impacting entrepreneurial activity is government restrictions and administrative burdens. For example, according to Krauss and Stahlecker\textsuperscript{67} (2001), one of the main factors underlying the slow development of biotechnology in Germany was government restrictions and administrative burdens. As these restrictions were loosened, they document a dramatic increase in biotechnology startups in the Bioregion Rhine Neckar Triangle. The number of biotechnology firms, and the growth of those firms, increased greatly as a result of the easing of administrative restrictions.

(C) Immigration:

Another factor determining entrepreneurship involves the role of immigration. Just as self-employment has increased within Europe and North America over the past quarter century, the role that immigrants and ethnic minorities play in entrepreneurial activities has also increased. In the U.S. a series of studies (Wilson\textsuperscript{68}, 1996; Bates\textsuperscript{69}, 1998) have attempted to identify whether the determinants of entrepreneurial activity differ for different immigrant and ethnic minority groups. In one of the most important studies, Saxenien\textsuperscript{70} (2001) documents that the decision to become an entrepreneur is shaped by immigrant group status. In particular, she provides evidence that the fastest-growing groups of immigrant engineers in Silicon Valley are from Mainland China and India. Chinese, in particular, are increasingly visible in the computer science and engineering departments on university campuses located in the Silicon Valley region. Saxenien suggests that these immigrant entrepreneurs provide a mechanism for a two-way flow of ideas and knowledge between Silicon Valley and their home regions in Asia.


\textsuperscript{69}Bates, Timothy M., 1998, Race, Self-Employment and the Upward Mobility, Baltimore: Johns Hopkins University Press.

Basu and Goswami\textsuperscript{71} (1999) use a multivariate model including cultural and social factors, as well as economic ones to identify the determinants of growth in immigrant owned firms in Great Britain. Their results suggest that moving away from a style of management based on immigrant culture has a positive impact on growth. This requires greater delegation of responsibilities to non-family employees. At the same time, strengthening links with the country of origin has a positive impact on growth. While the commitment to work hard at startup is essential, human capital factors such as the entrepreneur’s educational attainment and employee training appear to be more crucial than financial resources in contributing to growth.

\textbf{(D) Clusters, Networks and Linkages:}

Geography and spatial location also influences entrepreneurship. The important role that geographic clusters and networks play as a determinant of entrepreneurial activity was identified in Europe and only recently has been discovered within the North American context (Porter\textsuperscript{72}, 1990 and 2000; Saxenien\textsuperscript{73}, 1994). By contrast, there is a longer and richer tradition of research linking entrepreneurship to spatial clusters and networks in Europe. However, most of these studies have been in social science fields other than economics. For example, Becattini\textsuperscript{74} (1990) and Brusco\textsuperscript{75} (1990) identified the key role that spatial clusters and networks play in promoting SMEs in Italy. While such networks and clusters were generally overlooked or ignored in North America, with publication of Saxenien’s book, Regional Advantage(1994), which documented how spatial networks generated entrepreneurial activity in Silicon Valley and Route 128 around Boston, it became clear and accepted that spatial agglomerations were also important in the North American context.

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\textsuperscript{73} Saxenien, Annalee, 1994, Regional Advantage, Cambridge, MA: HarvardUniversity Press.


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(E) Culture & Social Capital:

Culture and social capital have also been identifying entrepreneurial activity. The network approach to entrepreneurship has its roots in sociology (Aldrich and Zimmer\textsuperscript{76}, 1986). According to this literature, social capital is an essential determinant of entrepreneurial activity. At the heart of these theories is the personal network perspective that has the premise that entrepreneurship is a social role, and is thus embedded in a social, political, and cultural context. In order to start a new business, social relationships must be activated and new ones created. Thus, entrepreneurship is a relational task, and is inherently a networking activity” (Dubini and Aldrich\textsuperscript{77}, 1991, p. 306). Granovetter\textsuperscript{78} (1983) emphasized the importance of weak ties within a network. Such weak ties are assumed to provide valuable information.

Hofstede et al.\textsuperscript{79} (2002) combine data on entrepreneurial and economic variables with data on cultural variables. First, they consider cross-sectional relationships between the cultural and psychological attitude variables and level of entrepreneurship. The results yield evidence that, across nations, dissatisfaction with society and with life in general are the main determinants of the level of entrepreneurship. In particular, countries where people are less satisfied have more self-employed individuals, their indicator for level of entrepreneurship. These are often societies with larger power distance, stronger uncertainty avoidance, more bureaucracy and corruption, and which are relatively poor.

Subsequently, they test a model that predicts levels of entrepreneurship using economic and dissatisfaction variables for which time series data are available. Results indicate a U-shaped relationship between prosperity and the level of entrepreneurship. In addition, unemployment is positively associated with the level of entrepreneurship, suggesting that it is a significant push factor. A series of different


\textsuperscript{77} Dubini, Paola and Howard E. Aldrich, 1991, “Personal and Extended Networks are Central to the Entrepreneurial Process,” Journal of Business Venturing, 6, 305-313.


analyses also support the conclusion that dissatisfaction with life and with society are key determinants of level of entrepreneurship across nations. Finally, by using the Hofstede indices of national culture to form country clusters, they substantiate the conclusion that culture may serve as an important moderator variable in relationships between economic factors and level of entrepreneurship.

EXISTING VIEW ON ENTREPRENEURIAL MOTIVATION:

In entrepreneurship literature, one comes across three broad views on the factors responsible for entrepreneurial response at the macro as well as micro-level. These views range from those of the economists who assign the greatest role to the environment, then the socio-cultural theorists, to the psychologists who assign the greatest role to the person. A brief discussion here of these views would be in order.

THE ECONOMISTS’ VIEW:

To an economist, it is economic profit (a return in excess of explicit or opportunity costs), which spurs the entrepreneur into action. As for the question what the entrepreneur’s profit was payment for, Hoselitz points out that the functions that the various definitions of the term ‘entrepreneur’ imply comprise risk/uncertainty bearing; coordination of productive resources; introduction of innovations; and the provision of capital. The nature, extent and relative importance of the functions that an entrepreneur may perform, however, does seem to vary across the level of development of the economy.

In a developed economy context where the entrepreneur has easy access to capital markets and financial services, managerial manpower abounds, and a substantial separation of management from ownership is possible, the entrepreneurial functions of provision of capital, risk-taking, and co-ordination would be considerably relegated to the background and that of innovation would assume paramount importance. No wonder, therefore, in almost every western definition of entrepreneurship and entrepreneur, the concept of innovation is saliently incorporated. The credit for

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bringing innovation and entrepreneurship to the forefront of the discussion in economics, however, clearly goes to Schumpeter.\textsuperscript{82}

Schumpeter's conceptualisation of entrepreneurship may be traced to three broad strands of his theory of economic development. One that is very famous and has to do with the main types of entrepreneurial behaviour, that is, carrying out of "new" combinations: (1) the introduction of a new good—that is one with which consumers are not yet familiar—or of a new quality of a good. (2) The introduction of a new method of production, that is not yet tested by experience in the branch of manufacture concerned, which needs by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially. (3) The opening of a new market that is a market into which the particular branch of manufacture of the country has not previously entered, whether or not this market has existed before. (4) The conquest of a new source of supply of raw materials or half-manufactured goods, again irrespective of whether this source already exists or whether it has first to be created. (5) The carrying out of the new organisation of any industry, like the creation of a monopoly position (for example, through trustification) or the breaking of a monopoly position.\textsuperscript{83} Schumpeter asserts, "Everyone is an entrepreneur when he actually 'carries out new combinations,' and loses that character as soon as he has built up his business, when he settles down to running it as other people run their businesses."\textsuperscript{84}

The second strand of Schumpeter's theory of economic development has to do with the motivation of the entrepreneur. What drives the entrepreneur, Schumpeter says, are primarily three things: (1) 'the dream and the will to found a private kingdom'; (2) 'the will to conquer: the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself'; and (3) 'the joy of creating, of getting things done, or simply of exercising one's energy and ingenuity'.\textsuperscript{85} Schumpeter's formulations can be translated as: (1) the desire for power


\textsuperscript{83} Ibid. page-66.

\textsuperscript{84} Ibid. page-78.

\textsuperscript{85} Ibid. page-93.
and independence; (2) The will to succeed; and (3) the satisfaction of getting things done.\textsuperscript{86}

Thirdly, Schumpeter made clear that the entrepreneur does not have to be a single person but can equally well be an organisation. What matters is the behaviour not the actor.\textsuperscript{87}

Kilby has argued that Schumpeterian perspective may not be relevant for understanding the phenomenon of entrepreneurship in a developing economy.\textsuperscript{88} Given the ignorance, heterogeneity (segmented markets), impeded factor mobility, lumpiness, pervasive administrative controls, and input non-availabilities, the idea of entrepreneurship itself may be referred to as an innovation. In such a situation, the scope of entrepreneurial roles expands considerably and encompasses, besides the perception of economic opportunity, and organisational innovations, the functions of gaining command over scarce resources, taking responsibility for the internal management and for the external advancement of the firm in all its aspects.\textsuperscript{89}

Bhatia\textsuperscript{90} argues that Schumpeterian entrepreneurs do not appear and cannot function, until a certain level of educational, social and technical progress has been achieved. They are, in fact, a product of development and an agent for further growth. The developing countries primarily need 'imitators' for successful adaptation of technologies and products developed elsewhere. The 'humbler' entrepreneur in a developing country may appear to be rather "pedestrian" when judged by the standards of more developed countries, yet his role in bringing about a substantial economic change in a traditional society in general and in relation to his venture in particular can hardly be overstated.\textsuperscript{91}


\textsuperscript{87}Ibid.


\textsuperscript{89}Ibid.


\textsuperscript{91}Ibid.
The impact of the functions of the entrepreneur in relation to the firm is so profound that it is seen as maximising his utility function. That is, the objective of the firm is assumed to be maximization of the entrepreneur's profits. Observations of the activities of businessmen have suggested that business firms do not maximise profits, not that they might not wish to, but that they simply do not or cannot equate marginal revenue and marginal cost, a condition for profit-maximising behaviour.\(^92\)

Moreover, it has been argued that the entrepreneur may not maximise profits at the expense of leisure, or at the expense of losing financial control over his firm, and that firms may place market share, sales maximisation, growth, liquidity, and production efficiency targets above profit maximisation goals.\(^93\)

Cyert and March's theory of decision-making in large-scale firms postulates that due to the multiplicity of stakeholders having diverse, and, at times, conflicting interests, the firm [read entrepreneur], rather than maximising utility function of any one of the stakeholders, engages in 'satisfying' behaviour.\(^94\)

None of these views of entrepreneurial/firm behaviour, however, has been able to hold the kind of currency held by the goal of profit maximization in economic theory. Now, given this quest for profit, to an economist, entrepreneurship is an automatic response to the signals of economic opportunity and supply of entrepreneurship is highly elastic in response to the anticipated profit. The level of entrepreneurship at any place or time is then determined principally by the demand for final outputs, availability of inputs, and environmental variables such as inflation, taxation, regulation, and political stability.\(^95\)

The role of government in promoting entrepreneurship deserves a special mention. The government in a welfare state has a mandate for providing the direction and momentum to the process of economic development through the processes of


economic planning and the instruments of state policy. For example, Sen draws our attention to the part played by governments in the miraculous performance of the East Asian countries on the development front.\footnote{Amartya Sen, A.K., 1999, 'India: Economic Development and Social Opportunity' in The Amartya Sen and Jean Dreze Omnibus, New Delhi, Oxford University Press, page-42.} Davis, North and Smorodin (1971) have postulated that government action may be "the innovation of choice" when there is a well developed governmental structure and poorly developed private one.\footnote{Davis, Lance, E., North Douglass, and Smorodin Calla, 1971, Institutional Change and Economic Growth, Cambridge, Cambridge University Press, cited in Calvin A. Kent, "Entrepreneurship in Economic Development", op. cit.} The entrepreneurial leads provided by the public sector by way of the creation of forward and backward linkages in the early phases of the developmental process in India might be cited as an example.

Besides the direct assumption of the entrepreneurial roles, government's fiscal and monetary policies of tax holidays, investment/interest subsidies, preferred purchases, preferential credit and allocation of other scarce inputs, etc. may have a lot of bearing on entrepreneurial manifestation in an under developed country. For example, Misra's study\footnote{Misra, PanchNarain, 1983, Financial Institutions and the New Entrepreneurial Class, Ph.D. Thesis, Delhi, Department of Commerce, University of Delhi.} has underlined the role of government financial institutions in fostering entrepreneurship development, especially among "new" entrepreneurs. His study has clearly brought out also the role of governmental assistance via investment subsidy, industrial accommodation and excise duty rebates, etc. in entrepreneurship development.\footnote{Ibid., page-153.} However, the entrepreneurial opportunities created by undertaking such promotional measures may not be accessible to all the potential entrepreneurs equally.

The political economy paradigm of Derossi suggests that proximity, though not necessarily in the geographical sense, to the sources of power may provide some individuals that critical access and, "the less the relationship with political power is visible the more effective it is."\footnote{Derossi, Falvia, The Mexican Entrepreneur, Paris, Development Centre of the Organisation for Economic Co-operation and Development, page-188.}
The favourableness or otherwise of these and other environmental factors\textsuperscript{101} may impede or enhance entrepreneurial vigour so much so that survival of a firm may depend on the degree of its 'fit' or compatibility with its environment. The population-ecology view\textsuperscript{102} takes an extreme view of environmental determinism whereby it is the environment ('ecology') that selects out some firm (or, firms) in a given 'population' (a term similar to the term 'industry').

**THE SOCIOLOGISTS' VIEW:**

'Economic profits', from a sociologist's point of view, accrue as a result of market's/society's approval of entrepreneurial endeavour and, thus, can be traced to a broader system of societal values that serve as a super structure over, both, economic incentives and individual motivation. Profits and other economic incentives have a 'symbolic' meaning for interpreting entrepreneurial motivation from a socio-cultural perspective. Other social values and beliefs may exert an even stronger influence on entrepreneurial activity. For example, Cochran proposed that entrepreneurial supply depends on the status accorded to entrepreneurs by the culture of the nation.\textsuperscript{103} Le Vine posited that if social mobility in a country is attainable through high performance, its people are likely to engage in entrepreneurial activities; however, if the social structure is rigid and social status predetermined, or if mobility is possible only through loyalty, obedience and sycophancy, then people will prefer other cupations.\textsuperscript{104} Stinchcombe attributed entrepreneurial manifestation to societal modernisation.\textsuperscript{105} Kunkel attributed entrepreneurship to societal values.\textsuperscript{106}


Hagen takes the view that it is not the status ascribed to and attainable by the pursuit of entrepreneurship per se that may explain its manifestation, rather it is the response of the individual/community to the situation of 'withdrawal of status respect'.

Hoselitz posited that the individuals belonging to the culturally marginal groups [such as the Jews in Europe] are more likely to assume entrepreneurial roles by default as they do not fit into any of the established "classes" and as such are excluded from making the mainstream occupational choices. He hypothesises that marginal men, because of their ambiguous position from a cultural or social standpoint, are peculiarly suited to make creative adjustments in situations of change and, in the course of adjustment process, to develop genuine innovations in social behaviour.

Stanworth and Curran referred to the concept of social marginality as “a discrepancy between the personal attributes of the individual and the social role he plays in the society .... For some people the inconsistencies between their personal attributes and their social roles are so large that they induce a crisis of self-identity which is followed by a behavioural response.” They note further that social marginality need not necessarily originate in early life experiences. An individual may lead a successful and marginality—free life and then, through sharp change in personal circumstances, become socially marginal.

“Among the various explanations of the rise of the modern world”, Berger notes, “that undertaken by Max Weber in his brilliant The Protestant Ethic and the Spirit of Capitalism may serve as the best available foil for a first attempt to identify the constitutive elements of the culture of entrepreneurship.”

Weber starts his analysis by commenting on the extent to which Protestants were more prevalent at the top of the economic structure than Catholics, even in regions

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110 Ibid, page-93.

with Catholic majorities. His analysis emphasises the differences in the values associated with the Protestant and Catholic religious teachings. He suggests that Protestant religion, particularly Calvinism, emphasizes a duty to be diligent, thrifty, prudent and sober, and that the consequence, individual economic well being, was an appropriate outcome. If large proportion of a society shared this perspective, it contributed to social change toward modern capitalism. Calvinism's twin doctrines of "calling/vocation" and "salvation", according to Weber, released and harnessed new entrepreneurial energies. Obvious implication of Weber's work was that exogenously supplied religious beliefs provided the sociological precursor to the development of capitalism, entrepreneurship and economic growth.

Whereas Weber's work proved to be the basis of much of the later interpretation of entrepreneurship from a sociologist's perspective, it was McClelland's work that triggered-off psychological research in understanding the phenomenon of entrepreneurship.

THE PSYCHOLOGISTS' VIEW:

To a psychologist, at bottom, entrepreneurship is a matter of individual. He takes the view that not all individuals have the potential to become entrepreneurs, and that of those who do, not all try or succeed. Such a view necessitated a focus on personality characteristics or traits that distinguished an entrepreneur from a non-entrepreneur or a successful entrepreneur from an unsuccessful entrepreneur.

The impetus for research on psychological correlates of entrepreneurship came, as noted earlier too, from the work of David C. McClelland, who set out to study “the problem of why some countries develop rapidly at certain times and not others.” Based on a scrutiny of literary documents of 39 countries (e.g., children's readers) for measuring achievement motivation and correlating it with economic development (measured in terms of electricity produced in each country), he concluded that the

answer could be found in the differences in the levels of need for achievement (n-Ach., for short). As for the question how does n-Ach. lead to more rapid economic development, he concluded, “the link is the business entrepreneur.”\textsuperscript{116}

What is true of the economy must be true of the persons, so he concluded that entrepreneurial motivation was best explained by n-Ach. so much so that it does even take care of the economist's articulation of entrepreneurial motivation in terms of profit maximisation.\textsuperscript{117} Kilby argues that McClelland's theory of need for achievement can also be seen as a further development of Weber's Protestant ethic in which an intermediating psychological motive (the need for achievement) is introduced.\textsuperscript{118}

Given that achievement motivation could explain entrepreneurial behaviour and economic growth, McClelland addressed to the issue of whether it could be developed. This required an elaboration of the characteristics of the people with a high need for achievement and the “language” of achievement which people could master and benefit from.

According to McClelland, an achievement oriented person: likes situations in which he takes personal responsibility for finding solutions to problems; has a tendency to set moderate achievement goals and to take “calculated risks”; and, wants concrete feedback as to how well he is doing.\textsuperscript{119} The language of achievement, to him, comprised: defining the problem, wanting to solve it, thinking of means of solving it, thinking of difficulties that get in the way of solving it (either in one's self or in the environment), thinking of people who might help in solving it, and anticipating what would happen if one succeeded or failed.\textsuperscript{120}

It is pertinent to mention here that even as McClelland treated concern for achievement as one, single, unique and distinct need, the original construct of

\textsuperscript{116} Ibid.
\textsuperscript{119} McClelland, David C. (1962), op. cit.
\textsuperscript{120} Ibid.
achievement as proposed by Murray,\textsuperscript{121} on which McClelland based his research, was multi-dimensional and contained traces of several ‘well known’ motives such as autonomy, self-actualisation, power, status, etc.\textsuperscript{122} Thus, the stage was set for an intense research effort in the direction of the manifest needs of the entrepreneurs, their behavioural characteristics and personality traits, that is, need for power (n-Pow.), n-Ach. need for autonomy (n-Aut.), internal vs. external locus of control, tolerance for ambiguity, type-A vs. type-B behaviour, introversion vs. extroversion, etc.\textsuperscript{123} In addition to “pure” psychology, such research extended also into other personological and demographic characteristics as well, such as age, sex, academic background, economic background, family, and effects of previous occupational experiences and so on. The effort was to see if the entrepreneurs indeed were a breed apart?\textsuperscript{124}

The research findings on personality characteristics or traits of the entrepreneurs, however, have not been conclusive. An extensive review of the various studies on entrepreneurial characteristics—psychological or otherwise—led Low and MacMillan to comment, “any attempt to profile the typical entrepreneur is inherently futile”\textsuperscript{125} and Gartner to conclude “Who is an Entrepreneur?” Is the Wrong Question.\textsuperscript{126} Consequently, researchers started addressing also to the question “what the entrepreneurial person does” in the process of new venture formation and how and what choices does he make among the alternative behavioural options. Thus, a psychological approach based on the person, process, and choice\textsuperscript{127} gained currency. Such an approach provided an alternative to the population—ecology framework and laid emphasis on the entrepreneurial efforts in influencing the environment through strategic choices. The strategic-choice framework for understanding entrepreneurial behaviour holds that acts of the entrepreneur are primarily volitional; the entrepreneur

\textsuperscript{121}Murray, H.A., Explorations in Personality, New York, McGraw-Hill, page-164.
\textsuperscript{124}Ibid.
\textsuperscript{126}Gartner, William B.\textsuperscript{op. cit.}, While the conclusions of Low and MacMillan, (op. cit.)
makes strategic choices to secure the best transactions with the environment; the environment is a pool of resources which the entrepreneur selects and acquires to establish his venture; and, the entrepreneur masters fate and makes strategic choices to minimise threats and exploit opportunities.\textsuperscript{128}

The relative emphasis on the person by the psychologists and on the environment by the economists and socio-culturists notwithstanding, it is clear from the foregoing discussion of the alternative approaches to the study of entrepreneurship that entrepreneurial manifestation and continuum are the result of a complex process of interaction between the entrepreneur and the environment. Like the different windows of a house, each of the approaches provides a different view of a complex reality. Each view has its merits, yet none is complete by itself.

**ENTERPRENEURSHIP AND ECONOMIC DEVELOPMENT:**

There is growing realization about the potential contribution of small enterprises both in developed and developing countries. A healthy, small business sector is rightly considered to be the backbone of any developed economy. Entrepreneurship training in most countries of the world is increasingly trying to promote local entrepreneurship and accelerating the pace of small enterprise development. Research studies conducted in USA suggest positive link between economic development and entrepreneurship. Similar research studies are rarely available in developing and underdeveloped countries. But absence of such studies does not suggest that such a positive relationship does not exist in the developing and underdeveloped countries.

Even in the case of the former tightly controlled economies in Eastern Europe people are anticipating that small business and entrepreneurship will lead the way to new economic development.\textsuperscript{129} Most countries in Eastern Europe have already switched over to the market economy.

Developing economies like India, China, Pakistan, Sri Lanka, Malaysia and many other South Asian countries have always considered small business as an important


sector of economy. A broad assumption that there are similarities in economic development process through entrepreneurship and small enterprise development across developed and developing countries could seem to be both ethnocentric and unsubstantiated.

Development brings changes in economic life which is not forced upon it from without but arise by its own initiative from within. Growth of an economy in terms of wealth which its population possess should not be designated as a process of development. For, it calls forth no qualitatively new phenomena, but only process of adaptation of the same kind as the change in the natural data.\(^\text{130}\)

Every concrete process of development finally rests upon preceding development. Every process of development creates the pre-requisites for the following. Thereby the form of the latter is altered and things will turn out differently from what they would have been. Development, according to Schumpeter, is a distinct phenomenon, entirely foreign to what may be observed in the circular flow or in the tendency towards equilibrium. It is a spontaneous and discontinuous change in the channels of the flow, disturbance of equilibrium, which forever alters and displaces the equilibrium state previously existing.\(^\text{131}\)

In real life, development of industrial and commercial activities and spontaneous and discontinuous changes in consumer’s taste disturb the centre of equilibrium. Businessmen in the process of coping with such disequilibrium identify opportunities for themselves. It is, however the producer who as a rule initiates economic change, and consumers are educated by him if necessary. They are, as it were, taught to want new thing and things which differ in some respect or other from those which they have been in the habit of using. The producer combines material and forces so as to meet the wants of consumers.

According to J. B. Say the entrepreneur’s function is to combine the productive factors, to bring them together. Carrying out of new combination of productive factors is called ‘enterprise’ which, in fact, is fundamental phenomenon of economic development. The individual whose function is to carry them out is what we call ‘entrepreneur’.


\(^{131}\)Ibid.
In the words of Rostow, the behavior pattern of people relevant for economic development can be summed up in six propensities: The propensity to develop fundamental science; to apply science to economic ends; to accept the possibilities of innovation; to seek material advance; to consume and to have children.\textsuperscript{132}

Kuznets highlighted the role of human resources when he said, major capital development is the body of knowledge amassed from tested findings and discoveries of empirical science, and the capacity and training of a nation’s population to use this knowledge effectively.

Jan Tinbergen has suggested five human qualities which are conducive to economic development:

- An interest in material wellbeing.
- An interest in techniques, and in innovation.
- An ability to look ahead and willingness to take risks.
- Perseverance
- An ability to collaborate with other people and to observe certain rules.

According to him presence of these qualities in individuals helps a nation achieve faster economic development.

Till the beginning of industrial revolution entrepreneurship of high order was not needed much. However, peasants, artisans, feudal lords and capitalists used to perform the low order entrepreneurial functions. Advances in science and technology coupled with awareness of the economic backwardness resulted in a changed role of entrepreneur in the developing countries. In the present context, it is the Schumpeterian innovative entrepreneur who puts the science and technology into economic use. Schumpeterian innovative entrepreneurs are the key to rapid industrialization, and thereby, economic development.

According to Kilby\textsuperscript{133}, the entrepreneur performs following four major tasks:


(a) Exchange relationship
( b) Practical administration
(c) Management Control
(d) Technology

These four tasks consist of:

(a) Exchange relationship
   - Perceiving opportunities in market
   - Gaining command over scarce resources
   - Purchasing inputs
   - Marketing of products and responding to competition

(b) Practical administration
   - Dealing with public bureaucracy
   - Management of human relations within the venture
   - Management of customer and supplier relations

(c) Management control
   - Financial Management
   - Production Management

(d) Technology
   - Acquiring and overseeing assembling of the factory.
   - Industrial engineering
   - Upgrading process and product quality
   - Introduction of new production techniques and products

All above fields of activity involve an entrepreneur in decision – making under conditions of uncertainty. Thus, an entrepreneur with Kilby’s proposed framework would have (i) determination of the types and degrees of uncertainty confronting the performance of a particular operation, and (ii) The ability to make the appropriate decision, necessarily for the goal attainment.

Kilby concludes, entrepreneurial performance in those roles involving, ‘exchanges relationship’ and ‘practical administration’ is vigorous and effective. On the other hand, entrepreneurs typically do not apply themselves with equal intensity or skill intensity or skill to their tasks in the realms of management control and technology.
Deficiencies in these latter areas represent in many instances the operational bottlenecks to indigenous industrial development.

In the recent decades the role of an entrepreneur has been considered of great significance in accelerating the pace of growth and economic development in both the developed and underdeveloped countries. The present day developed countries such as America, England, Germany, Japan, own much of their economic development to enterprising people in their countries. Developing and underdeveloped countries having seen the history of economic development in developed countries are now conscious of the significance of entrepreneurship for economic development. There is growing realization that both quantity and quality of entrepreneur is of utmost significance for achieving the goal of economic development. Active and enthusiastic entrepreneurs can fully exploit the potentialities of a country’s available resources such as labour, technology and capital.

Some of the noted economists have described the role entrepreneur in economic development in different words. Schumpeter considers introducing innovation as the most significant contribution of entrepreneur in economic development. Parsons and Smelser describe an entrepreneur as one of the two necessary conditions for economic development, the other being the increased input of capital. Harbinson considers entrepreneurs among the prime movers of innovation and Sleigh simply describes entrepreneurship as a necessary dynamic force.134

Underdeveloped economies usually suffer from paucity of funds, lack of skilled labour and no existence of minimum social and economic overheads. Market environment in such economies is less conducive to the emergence of innovative entrepreneurs. In such countries, non-innovative entrepreneurs, namely, imitators, fabians and drones are notices to a large extent. In absence of industrial background and well developed institutional support entrepreneurs in such economies try to copy innovations introduced by innovative entrepreneurs in developed countries. Enterprising people possessing a high need for achievement in such areas would be noticed as not being satisfied with present status that they have in the society. They

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would, therefore, venture into some new type of enterprise, which are usually imitative in nature.

The entrepreneurs play a pivotal role in social—economic development and industrialization of a country needs no further emphasis. Entrepreneurship need not simply be confined to industry, trade and commerce. In fact, pace of development would be far greater when people in general in all walks of life and in all work situations start reflecting entrepreneurial behavior. Developing economies need a greater and capable of taking decisions under conditions of uncertainly. It is this class of human resource which has the potential of transforming their underdeveloped economics into developed economies.

FACTORS RESPONSIBLE FOR THE EMERGENCE OF ENTREPRENEURSHIP:

An individual’s decision to pursue an entrepreneurial career is dependent upon various factors as mention below.

(1) **Background Factors:**

   (a) **Education, Training and Experience:** The type of education, training and experience an individual has undertaken affects his choice of setting up an enterprise. Technically qualified persons, normally, set up their ventures in the field of their specialization mainly because working in one’s area of specialization gives confidence and reduces the uncertainty associated with the new venture.

   (b) **Family, Role Models and Association with Similar Type of Individuals:**

       If an individual has a supportive family, has role models who have been successful or he/she is in association with same or similar types of individuals, it adds to their desire of setting-up a new venture.

   (c) **Financial Conditions:** Both adverse and supportive financial condition can motivate an individual to set up a new venture. When an individual is unemployed or is not able to support his family demands or if he is having surplus funds, he may start looking for a new business venture where he can put in his time/money to achieve success and hence fulfill his needs.
(2) Motivational Factors:

(a) Need for Achievement: This has been identified as the most important reasons for entrepreneurial motivation by various researchers. Need for achievement means the drive to achieve a goal. Entrepreneurs have compelling drive to success. They are striving for personal achievement rather than reward per se. They have desire to do something better or more efficiently than it has been done before.

(b) Personal Motives/Expectations: These have been found to be one of the crucial factors responsible for entrepreneurship amongst individuals. These individuals have internal focus and control, i.e., they consider themselves responsible for their own growth and development.

(c) Business Environment: Supportive business environment like low level of competition, high profit margins, good economic conditions in the region, high demand – all go towards motivating an individuals to set up a new venture.

(3) Economic Factors:

(a) Supportive Government Policies: From time to time the government keeps formulating policies and programmes like tax holidays to promote entrepreneurs in different fields. These policies and procedures go a long way in catalyzing entrepreneurial motivation.

(b) Availability of Financial Assistance from Various Funding Bodies: An entrepreneur needs funds to set up a business and many may not be having requisite funds to supports the requirements of the business. In such a situation, he/she can take assistance from financial institutions and the same can facilitate the setting up of the new venture by easing out the disbursement of funds to them.

(c) Ancillary Support: Ancillary support from suppliers, distributors, retailers and even bigger units can act as great encouragement to the budding entrepreneurs.

(d) Availability of Technical Factors like Premises, Electricity, Labour: The ease with which factors of production like are available to the entrepreneur will facilitate/ obstruct him/her in making the final decision of setting up the business venture and even in the success of the of a business.
4 Reward:

(a) **Recognition:** Since the success of a business is usually in proportion to the efforts put in by the entrepreneur by setting up a new venture, the entrepreneur gives himself the independence to be the master of his own fate. Since the success of the enterprise is associated with the efforts and success of the entrepreneur, he/she gets enough recognition to fuel his self-esteem.

(b) **Social Status:** Entrepreneurship ensures huge profit margins which a salaried employee cannot even think of. Hence, if the business runs successfully it automatically raises the social status of the individuals. Moreover the idea of being responsible for one’s own fate, employing a number of individuals, taking important decisions all go a long way in giving a higher social status to the individual.