CHAPTER - II

INNOVATION
AND
ENTREPRENEURSHIP
INNOVATION AND ENTREPRENEURSHIP

Schumpeter (1959) defines the entrepreneur as an innovator who works out new combinations of the factors of production and distribution. Hence working out new combinations of the factors of production and distribution can be taken as innovation. Introduction of new goods, new methods of production, creating new markets, finding new sources of raw materials or manufactured goods and building a new organisation or an industry is innovation. It is not

always possible to find a new product, so finding a new utility to the existing product can also be treated as innovation.

Innovation is the means by which entrepreneurs exploit change as an opportunity for a different business or a different service. It is capable of being presented as a discipline, capable of being learned and capable of being practised. Entrepreneurs need to search purposefully for the sources of innovation, the changes and symptoms that indicate opportunities for successful innovation. They need to know and apply the principles of successful innovation.

Peter F. Drucker puts principles of innovation in the form of Dos, don’ts and conditions. The Dos include analysing the opportunities, knowing the expectations, values and needs of the customers and/or users, keeping it simple, starting small and providing leadership.

For innovation to be successful one should not try to be clever, should not diversify, splinter and try to do too many things at once and should not innovate for the future.

Successful innovation requires knowledge and great ingenuity, must be based on strengths but not weaknesses and must be market oriented.

According to Peter F. Drucker⁴ there are seven sources for innovative opportunities. These sources are the instruments of changes. The seven sources can broadly be divided into (i) internal (i.e., the sources lying within the enterprise) and (ii) external (i.e., the sources outside the industry).

The internal sources include the unexpected success or failure or happening of an outside event; the incongruity (a discrepancy, a dissonance, between what is and what aught to be, or between what is and what

⁴ Peter, F. Drucker, op. cit., p.27.
everybody assumes it to be); process need and sudden changes in the structure of the industry and/or market. Whereas demographics (changes in population, its size, age structure, composition, employment educational status and income); changes in perception, mood and meaning of the people and new knowledge, whether scientific or not are the sources of innovation falling outside the industry.

The 200 entrepreneurs selected were asked six questions relating to innovation. But no entrepreneur answered those questions satisfactorily. From that, it was understood that no entrepreneur
- has searched for any change, responded to it and exploited an opportunity,
- has introduced any change in any of the areas of management, and
- has ever experienced any unexpected success or failure or happening of an outside event or incongruity leading to innovation.
It seems that the entrepreneur (i.e., the respondents) have started their units not to exploit an opportunity by recognizing change but just like that forced by some socio-economic and environmental considerations to share the existing market. Reasonable systematic investigation does not precede the setting up of the units. Hence, it can be concluded that innovation among the entrepreneurs in the district is at its low ebb. Moreover, majority of the entrepreneurs are not technically qualified, resourceful, experienced, trained and are not big enough to maintain a research wing. This may be one of the reasons for the low level of innovation among them.

ENTREPRENEUR:

The word 'entrepreneur' appeared in the French language, long before the emergence of the concept of entrepreneurial function. In early 16th century, it was applied to those who were engaged in military expeditions. In the 17th Century, it was extended to
cover civil engineering activities such as construction and fortification. It was only in the beginning of the 18th century that the word was used to refer to economic activities.

Entrepreneur is a term used in economics to denote one who assumes the risk and management of business. The factors of production were generally divided by the earlier economists into land, labour and capital; these were identified with the economic classes—landlord, worker and capitalist. The capitalist was the person who provided capital for the business and also directed the business. For these activities, the capitalist received interest and profits. Profits covered many different types of activities, among them incomes received by management of special ability, net incomes from the ownership of business and returns from assuming the non-insurable risk of business undertakings. It also included the rewards, if successful, for starting some new venture or bringing

into the market new process or product. It is in this last sense that the capitalist becomes a true entrepreneur.

The merchantilist writer Cantillon introduced the term entrepreneur. He defined entrepreneur as the agent who purchases means of production in order to combine them to produce a product to sell at prices that are uncertain at the moment at which he commits himself to his cost. This idea of the Cantillon was accepted by the physiocrats.

It is interesting to note that although the influence of physiocrats and Cantillon upon Adam Smith was considerable, English thought took a different path. Adam Smith repeatedly talked about the employer, the master, the merchant, and the undertaker but he seldom


made reference to the entrepreneurial function as a distinct one. Natural law pre-conceptions led Adam Smith to emphasize the role of labour to the exclusion of the productive function of designing the plan according to which the labour is being applied.

Similar is the case with Ricardo and Marx for whom the processes of production and commerce are automatic. "The designing, directing, leading, co-ordinating function has practically no place at all in their analytic schemata".

According to Knight, an entrepreneur is a person who, in the ultimate sense, controls the decisions made in a productive enterprise and also carries responsibility for the decisions made.

William J. Baumol lamented the fact that economic theory has failed to provide a satisfactory analysis of either the role of the entrepreneurship or its supply. The traditional notion of entrepreneur, he maintains

merely draws our attention to the entrepreneur as an individual (or group of individuals) who brings together the factor inputs and organises productive activity. The traditional models of the behaviour of firm have reduced entrepreneur to a mere manager who 'oversees the on-going efficiency of continuing process'.

Marbinson's entrepreneur is not an innovator but an organisation-builder who must be able to harness the new ideas of different innovators to the rest of the organisation.

To McClelland (1961) an entrepreneur is one who likes to take reasonable risk, wants to know how they

9. "Given an arrangement which calculation, experience or judgement indicate to constitute a reasonable approximation to the current optimum, it is the manager's task to see that this arrangement is in fact instituted to a reasonable degree of approximation". William J. Baumol, "Entrepreneurship in Economic Theory", American Economic Review, Papers and Proceedings, Vol.LVII, No.2, May, 1968, p.65.
can turn out as quickly as possible and has high degree of need for achievement and motivation.

Pathak (1975)\textsuperscript{12} for the purpose of his study defined entrepreneur as one who starts a small unit. Sivaram (1982)\textsuperscript{13} defined entrepreneur as one who organises, operates and assumes all the risk for his business.

**ENTREPRENEURSHIP :**

Different social scientists defined entrepreneurship differently.

A.H. Cole defined entrepreneurship as "the purposeful activity (including an integrated sequence of decisions) of an individual or a group of associated individuals, undertaken to initiate, maintain or


aggrandize a profit-oriented business unit for the production or distribution of economic goods and services". In this definition, the term entrepreneurship is confined to profit-oriented commercial activity.

Liebenstein (1968) distinguishes two broad types of entrepreneurial activity. First, the 'routine' entrepreneurship is associated with the managerial function of the business. Second, the 'new type' entrepreneurship which is basically of schumpeterian type.

Venkateswara Rao and Prayag Mehta (1978) described entrepreneurship as a creative and innovative

response to the environment. Such responses can take place in any field of social endeavour, business, industry, agriculture, education, social work and the like. Doing new things or doing things that are already being done in a new way is, therefore, a simple definition of entrepreneurship.

Gaikwad (1978)\textsuperscript{17} says in India, today, the term entrepreneurship appears to connote a much restricted meaning. It covers only a limited sphere of enterprising endeavour. Here the thinking generally veers round the efforts which result in establishing and running factories and industrial enterprises alone. Moreover, there is a marked tendency to relate it to operations which exceed a particular size.

Pathak (1975)\textsuperscript{18} regarded the term 'entrepreneurship' as co-extensive with setting up and managing a small-scale unit. This involves a wide range of areas on which series of decisions are required.

\begin{itemize}
\item \textsuperscript{18} H.N.Pathak, \textit{Problems of Small Scale Entrepreneurs}, Industrial Developing Bank of India, Bombay, 1975, p.75.
\end{itemize}
which can be broadly grouped into three categories, viz., relating to (i) perception of an opportunity, (ii) organising an industrial unit and (iii) running the industrial unit as a profitable going and growing concern.

To conclude any activity, commercial or otherwise, requiring all or some of the qualities of adventure, innovation and risk-taking is an entrepreneurial activity. A person who undertakes an entrepreneurial activity with personal or organisational goal is an entrepreneur. Attitude of a person to take up an entrepreneurial activity is called entrepreneurship.

For the purpose of the study, an entrepreneur is one who is solely or mainly responsible for starting and running an industrial unit in the district. The act of starting and running or managing a unit is called entrepreneurial activity. The interest, enthusiasm or zeal to start, run or manage by taking reasonable risk is called entrepreneurship.