## TABLE 2.1
Entrepreneurship: Sources of Supply and Motivation

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THEORIES OF ENTREPRENEURSHIP
CHAPTER-II
THEORIES OF ENTREPRENEURSHIP

The present chapter is divided into two sections. Section-I details the development of major theories of entrepreneurship. An attempt is made in Section-II to build an integrated theory of entrepreneurship based on the theoretical perspectives developed in section one.

2.1 THEORIES OF ENTREPRENEURSHIP

It is instructive to note that the received economic theory did not provide for any special role to the entrepreneur. As a matter of fact “as economic theory has become more formalised, the tendency to discard entrepreneurship as a significant separate factor in the operation of the economy has increased. Thus in modern growth theory, any contribution of entrepreneurship is typically contained in a catchall residual factor. This latter residual, variously termed ‘technical change’ or ‘co-efficient of ignorance’, includes, among other things, technology, education, institutional organisation and entrepreneurship”. xlvii

Further, in explaining post economic growth that took place in industrialized economies, while some gave enormous importance to entrepreneurial factor, some others considered it a passive factor emphasizing the role of invention, market opportunities, and changes in product-factor prices. xlviii Habakkuk took the position that “these entrepreneurs are of course not to be considered only as the cause of economic development, they are also a product, a consequence of economic development”. xlix

Before discussing the theories of entrepreneurship it is appropriate to refer to the important functions of an entrepreneur. This is because of the fact that type of persons that could fill the entrepreneurial role would depend upon the nature of entrepreneurial functions. As has been alluded to, while discussing the concepts of entrepreneur “the array of all possible entrepreneurial roles encompasses the perception of economic opportunity, technical and organizational innovations, gaining
command over scarce resources, taking responsibility for the internal management and for the external advancement of the firm in all its aspects. In any particular time and place, the skilled performance of certain of these tasks demand little attention or can be safely delegated to subordinates. Thus different settings may call for markedly dissimilar entrepreneurial personalities.\(^1\)

While the above is true in general for all the countries, as far as developing economies are concerned, the fact that they can draw from the store of developed technology, available in industrialised economies, makes some difference. What these countries need is a large number of imitative and adaptive entrepreneurs, besides innovative entrepreneurs. With the above background we now review some important theories of entrepreneurship as propounded by Max Weber, Schumpeter, Hagen, Kunkel, McClelland, Cochran, Young, Harbinson and others.\(^2\)

### 2.1 Max Weber’s Ideological Theory of Entrepreneurship: Protestant Ethic

The central feature of the Weberian theory of social change consists in his treatment of the protestant ethic and the spirit of capitalism. After presenting a picture of traditional economic life, very much comparable to the circular flow of Schumpeter, Weber introduces the new businessman into the picture of tranquil routine:

“Now at some time leisureliness was suddenly destroyed, and often entirely without any essential change in the form of organisation, such as the transition to a unified factory, to mechanical weaving etc. What happened was, on the contrary, often no more than this: Some young man from one of the putting-out families went out into the country, carefully chose weavers for his employ, greatly increased the rigour of his supervision of their work and thus turned them from peasants into labourers. On the other hand, he would begin to change his marketing methods. . . at the same time he began introduce the principle of low prices and large turnover. There was repeated what everywhere and
always is the result of such a process of rationalization: those who would not follow suit had to go out of business.

The idyllic state collapsed under the pressure of a bitter competitive struggle, respectable fortunes were made, and not lent out at interest, but always reinvested in the business. . . And what is most important in this connection, it was not generally in such cases a stream of money invested in the industry which brought about this revolution—in several cases known to me the whole revolutionary process was set in motion with a few in such cases a stream of money invested in the industry which brought about this revolution in several cases known to me the whole revolutionary process was set in motion with a few thousands of capital borrowed from relations, but the new spirit, the spirit of modern capitalism, had set to work. . . Its entry on the scene was not generally peaceful. A flood of mistrust, sometimes of hatred, above all of moral indignation, regularly opposed itself to the first innovator. Often I know of several cases of the sort—regular legends of mysterious shady sports in his previous life have been produced.

As a result of this, the business begins to make profits even if there takes place fall in prices as a result of increase in output. The inducement of profit results in greater number of business enterprises and a complete reorganization of the industry occur. In the Weberian system the entrepreneurial energies are generated by following exogeneously supplied religious belief known as Protestant ethic. For people who believe in this ethic, hardwork in their walks of life will enable them not only to have their worldly desires met but also to have their spiritual needs satisfied. Thus, in the Weberian system the motivating force for entrepreneurial activity is provided by Calvinist ethic irrespective of the cultural background personality type of the individual and the social environment to which he lives.

2.1.2 Schumpeterian Theory of Waves of Creative Destruction
The Schumpeterian theory of entrepreneurship is an integral part of his theory of development. Development implies carrying out of new combinations. This concept of new combinations covers the following five cases:

i The introduction of a new good—that is one with which consumers are not yet familiar—or of a new quality of good.

ii The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially.

iii The opening of a new market, i.e. 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.

iv The conquest of a new source of supply of raw materials or half-manufactured goods, again irrespective of whether this source already exists whether this source already exists or whether it has first to be created.

v To carrying out of the new organisation of any industry like the creation of a monopoly position (for example, through trustification) or the breaking up of a monopoly position.

The carrying out of these new combinations is christened as ‘enterprise’ the individuals who carry them out are called ‘entrepreneurs’. Usually, the entrepreneur would finance his innovative activity by bank credit. The entrepreneurial activity represents a disequilibrium situation, a dynamic phenomenon and a break from the routine or ‘circular flow’ or ‘tendency towards equilibrium’. An entrepreneur in short engages himself in unaccustomed activity. “While he swims with the stream in the circular flow which is familiar to him, he swims against the stream if he wishes to change its channel. What was
formerly a help becomes a hindrance. What was a familiar datum becomes an unknown. Where the boundaries of routine stop, many people can go no further and the rest can only do so in a highly variable manner”. This is the very reason why carrying out of new combinations is a special process and ‘object of a special kind of function’.

Schumpeter clarifies his position in respect of entrepreneurship by three corresponding pairs of opposites, first by the opposition of two real processes: the circular flow or the tendency towards equilibrium on the one hand, a change in channels of economic routine or a spontaneous change in the economic data arising from within the system on the other. Secondly, by the opposition of two theoretical apparatuses described as statics and dynamics. Thirdly, by the opposition of two types of conduct, which are found in two types of individuals, mere managers and entrepreneurs”.

Next, Schumpeter takes up the question of characteristics motives of the entrepreneurial conduct. Although he tries to indicate the ‘psychology of entrepreneur’, he believes that “none of the results to which our analysis is intended to lead stands or falls with ‘psychology of the entrepreneur’ or could be vitiated by any errors in it”.

Schumpeter refers to “dream and the will to found a private kingdom” will to conquer, and finally “the joy of creating, of getting things done or simply of exercising ones energy and in genuity” as the motives that inspire the innovative entrepreneur to undertake the innovation.

2.1.3 Everett E. Hagens Theory of Entrepreneurial Motivation

Hagen attempted to formulate a theory of social change which explains how a traditional society becomes one in which continuing technical progress takes place. The theory, instead of suggesting the key factor as the generator of social change, presents a general model of society which considers interrelationships among physical environments, social structure, personality and culture. He finds the economic theories of under-development to be inadequate. He also supports the idea that economic
growth occurs interwoven with political and social change. He also rejects the notion that the solution to economic under-development lies in imitating western technology. This is so because technology is a part of the whole socio-cultural complex and transplantation of it into a different socio-cultural set up may not deliver the goods.

Then, he takes up the forces that will bring about social change and technological progress. “Study of a number of countries in which there has occurred a transition from a traditional state of continuing economic development suggests that an important factor initiating change was some historic shift which caused some group or groups of lesser elite, who previously had a respected and valued place in the social hierarchy, to feel that they no longer were respected and valued.” For instance, in Japan the feudal group known as the Tokugawa, who came into power in 1600 brought a peace which deprived the Samurai of their traditional function. It was the lesser Samurai and wealthy peasants who played the innovators role in Japan’s industrial revolution. In short, the social group which experienced ‘withdrawal of status respects’ that turns to rigorous entrepreneurial activity. They are “a group of individuals, creative, alienated from traditional values, driven by a gnawing burning drive to prove themselves (to themselves, as well as to their fellows), seeking for an area in which to do, preferably an area in which they can gain power, and preferably also one in which in some symbolic way they can vent their rage at the elites who have caused their troubles. Moreover, their (perhaps unconscious) rage at the group disparaging them will cause them to turn against some of the values of the group disparaging them. The fact that the disparaging group, in the cases cited above, was traditional is one of the reasons why the disparaging group rejected traditional values and turned to innovation.”

In the traditional societies, “the drive for security, self reassurance, and power will surely lead many innovational individuals of technological innovation.”

2.1.4 John H.Kunkel’s Behaviouristic Model of Entrepreneurship
Kunel’s is a behavioural model which starts with the premise that “man’s internal state is beyond the scope of presently available means of measurement and objective analysis, and knowledge of it is largely unnecessary for the explanation and prediction of behaviour. The model is concerned, with the overtly expressed activities of individuals and their relations to the previously and presently surrounding social structures and physical conditions.”

“According to this behavioural model, the determinants of an individual’s activities are to be found largely in the conditioning procedures—both deliberate and accidental to which he has been subjected in the past, and in the sets of reinforcing and discriminative stimuli which become part of his behavioural chains and are part of present social context. The relationship between the social environment and the individual is reciprocal; the social context of an individual creates particular secondary deprivations, a particular reinforcement on a specific schedule, and the associated controlling stimuli which are the essential elements of the operant conditioning process. An individual manipulates the social context with his behaviour deprivations are reduced or noxious stimuli are eliminated or avoided, and new SD’s (discriminative or controlling stimuli) for further activities may thereby be established (chaining).”

This behavioural approach does not deny the existence of man’s internal state depreciating the human spirit. “It simply does not make use of these concepts in analysis of behaviour because their ambiguities so far outweigh the advantages that their use cannot at present be justified.”

This behaviourist model comes up with the policy conclusion that is in quite contrast with that of the psychogenic approaches. The conclusion is that “to change man’s activities one need not concern oneself with altering values; one needs to change only certain elements of the operant conditioning context of which all men at all times are an integral part. According to the behavioural model, the psychological pre-requisites of economic development are certain behaviour patterns, whereas the
social pre-requisite are the determinants of the reinforcing and discriminative stimuli by means of which desired behaviour patterns are shaped and maintained.\textsuperscript{13}

\textbf{2.1.5 David C. McClelland’s Theory of Achievement Motivation}

McClelland was concerned himself with economic growth and the factors that influence it. He wanted to find the ‘internal factors’ i.e. ‘human values and motives that lead man to exploit opportunities, to take advantage of favourable trade conditions’.\textsuperscript{51}

He (along with his research associates) isolated several inner concern or motives, chief among which is what he called “need for achievement”: “a desire to do well, not so much for the sake of social recognition of prestige, but for the sake of an inner feeling of personal accomplishment.”\textsuperscript{52}

It is this movie of n-achievement that guides the actions of entrepreneur. People with the high n-achievement behave in an entrepreneurial way. The entrepreneurs display the following characteristics:

\begin{itemize}
  \item[i] They do not work harder at routine tasks.
  \item[ii] They avoid gambling situation because in such cases winning will only be due to luck and such winning does not give any sense of personal accomplishment. They want the outcome of their activities to depend on their own skill.
  \item[iii] They show interest in finding out results of their decisions. For instance, growth in sales, output or profit margins and such other economic indicators can be used to judge the effectiveness of entrepreneurial decisions.
  \item[iv] They prefer to work hard at tasks that involve a real challenge which imply only a moderate risk.
\end{itemize}
McClelland applies his n-achievement approach to study the relationship that existed between n-achievement scores (these scores were calculated on the basis of ‘readers’ for the second, third and fourth classes) and economic development (they used electricity produced as a measure of this). Their investigations have led them to believe that n-achievement is a precursor of economic growth both in capitalist and in socialist economies. “In a century dominated by economic determinism both in Communist and in Western thought, it is startling to find concrete evidence for psychological developments which precede and presumably cause economic changes.” The n-achievement approach suggests promotion of achievement oriented ways of thinking to foster economic development in underdeveloped countries.

2.1.6 Thomas Cochran-Entrepreneur as Society’s Model Personality

The theory of Cochran is a sociological theory of entrepreneurial supply. Starting with the premise that fundamental problems of economic development are non-economic, he emphasizes cultural values, role expectations, and social sanctions as the key elements that determine the supply of entrepreneurs. According to him, an entrepreneur is neither a super-normal individual nor a deviant person but represents a society’s modal personality. “... the executive, therefore, plays a social role partly shaped by the modal type of personality that comes from the social conditioning of his generation. While the unusual characters will always depart from the norms, in general invention and innovation will tend to be along lines congenial to the type of conditioning.” In a well established corporation senior officers or the board have well-formed expectations. These constitute the defining groups and the entrepreneurial role is ‘closely defined’ by them. “It is obvious that the primarily cultural factors operating on the personality of the executive and the defining of his role by those involved must accommodate to some degree to the necessities of the operations to be carried out.” There is no guarantee that proper accommodation always takes place there.
The executive’s inner character is largely conditioned by the type of child-rearing and schooling common to the culture. “This relatively simple framework of an entrepreneurial role defined by the personality of the actor, the expectations of groups with power to sanction deviations from expected behaviour, and the operational needs of the function to be performed, subsumes all the social or cultural factors.”

He tried to demonstrate the dynamics of his entrepreneurial model by selecting instances from American economic history. He points to important changes that have taken place during the 150 years in the U.S. Economy. First, the rapid adoption of industrial machinery in first half of the 19th century; second the rise of professional management in the large corporation, starting in the second half of the century; and third, the spread of mass production techniques in the 19th century. In each of these major changes the social factors in American culture operating through the entrepreneur appear to be well marked. The analysis may also be used to answer questions as to why corresponding changes did not occur in other cultures.

Thus, the individual’s performance as entrepreneur will be influenced by his own attitude toward his occupation the role expectations held by sanctioning groups and the operational requirements of the job. The former two elements are determined largely by the society’s values, while the last element will be influenced by changes over time in such exogenous variables as population, technology, consumer demand or merely “cumulative institutional drift”.

2.1.7 Frank Young’s Theory of Group Level Pattern

Before elaborating a macro sociological interpretation of entrepreneurship, Young deals with the deficiencies of psychogenic mediation model. Stating that there is general agreement in regard to the point that development is an organizational phenomenon, he points to the inability of the psychogenic interpretations to explain the appearance of a new kind of organisation. “Without
exception they are mute on the question of how individual tendencies, special abilities, unusual motivation, or perception of particular opportunities are transformed into the emergent property that is social organisation. 

He reinterprets the individual level entrepreneurial characteristics as the “underside” of a group level pattern. “Instead of looking at individuals, one must find clusters; ethnic communities, occupational groups, or politically oriented factions.” Of these groups, those which show “a certain reactivity or solidarity, defined on the degree to which members create, maintain, and project a coherent definition of their situation”, that “seize upon the rhetoric of religion or politics as a vehicle for expressing their deviant view of the world.” The chief aspect of this group definition of entrepreneurship is that the entrepreneur typically does not work single handed. “He is simply the most visible member from an economic point of view of what is typically a cluster of families whose activity is mutually reinforcing and co-ordinated by a coherent outlook on the world.

Young claims that many entrepreneurial functions are implied in his concept of solidarity. “Given a group bent on finding a suitable reformulation of its outlook on the world, it is likely that recombination of economic factors, higher standards of labour, the search for new resources, technology, markets and a more disciplined management of money and time will emerge as part of this effort.” This solidarity of entrepreneurial group also avoids many economic problems that crop up in the case of an individual entrepreneur.

Young discussed the similarities and differences between the ‘socio-genic explanation of solidarity structure and some other explanations of entrepreneurial supply. He claims that “the approach to measurement and analysis that comes out of the macro sociological perspective will in the long run be its most attractive feature.”

2.1.8 Harbison Theory of Entrepreneurship
While Harbison did not propound any theory pertaining to supply of entrepreneurship, he has made very interesting observations concerning entrepreneurship as a factor in economic development. He found identification entrepreneur has with an individual person in the context of modern industry as unreasonable. For, there may be number of individuals who perform different entrepreneurial functions. “In most enterprises, a hierarchy of individuals is required to perform them. Thus, the entrepreneur is in essence an organisation which comprises all of the people required to perform entrepreneurial functions.” He suggests that entrepreneurship should be treated as a resource which has both qualitative attributes and quantitative dimensions and hence it will be possible to make empirical studies of such resources as it is related to other factors of production. He categories the functions of modern entrepreneurial organisation in the following way: 1. “Undertaking or managing of risk and the handling of economic uncertainty. 2. Planning and innovation; 3. Co-ordination, administration and control and 4. Routine supervision.” Of course, in a small enterprises these different functions will be performed by the same individual. Harbison characterizes all the persons who perform entrepreneurial functions in a large organisation as ‘Managerial Resources’.

The effectiveness of business organizations requires dynamic and innovative entrepreneurs. “A dynamic organisation needs its idea men, its creative thinkers, its people who can plan and initiate changes”. One can speak of ‘investment in organisation’ in the same way as one thinks of investment on machinery and equipment. As we speak of accumulation of capital, we can also speak of ‘accumulation of managerial resources’. In less developed countries, the latter is as important as the former because for effective utilization of the former the latter is essential.

This organizational view of entrepreneurship, Harbison points out, does not minimize the importance of individual innovators in economic development. It, however, emphasizes the fact that “organisation is more than a summation of particular abilities of certain individuals. It is more than the
statistical aggregate of managerial personnel. Organisation connotes a constellation of functions in a common undertaking.\textsuperscript{xlvii}

2.1.9 Bert.F.Hoselitz’s Hypothesis Pertaining to Supply of Entrepreneurship

In the context of reviewing the theories and suggestive hypotheses pertaining to supply of entrepreneurship it is relevant to refer to the observations of Hoselitz.\textsuperscript{xlviii} He emphasizes the role of culturally marginal groups like Jews and Greeks in medieval Europe the Lebanese in West Africa, the Chinese in South Asia, the Indians in East Africa in promoting economic development. Making use of the work of Stonequist and Park, Hoselitz formulated the hypothesis 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 this adjustment process to develop genuine innovations in social behaviour.”\textsuperscript{xlviiix}

It is interesting to note that the theories which are summarized above give prominence to either sociological or psychological factor-as determinants of supply of entrepreneurship. Peter Kilby characterizes theories of Schumpeter, McClelland, Hagen and Kunkel as psychological and those of Weber, Cochran and Young as sociological.\textsuperscript{xlviiix} Further, the behaviouristic model of Kunkel, innovation-centered Schumpeterian theory, model-personality approach of Cochran do not treat the influence of groups as causally important as far as supply of entrepreneurship is concerned. All the remaining theories do give prominence to social groups.

Most of these theories seem to be based on actual experience of some countries or regions in countries during specific periods. None of the theories except that of McClelland and propositions of Harbison are amenable to statistical testing. Further, the general impression that is gained from perusal of these theories is that it is not really possible to build an economic theory of entrepreneurial supply with main focus on economic determinants of entrepreneurship given the socio-cultural milieu. Till very
recently, no effort to a valid economic theory of entrepreneurship seems to have been made. No doubt, the studies of Gustov Papnek, Aubrey, Rosenberg, William Baumol, Harris and Yamamura contained elements that can be used to formulate an economic theory of entrepreneurship. Peter Kilby attempted to formulate such a theory using the familiar tools of the economists.
2.2 ENTREPRENEURSHIP AS ECONOMISING BEHAVIOUR

I.M. Kirzner argued that entrepreneur is a person who hires the services of factors of production, with a superior knowledge of market information. The major characteristic of Kirzner’s entrepreneur is alertness as he looks for opportunities to capture existing economic events and in compelling to capture them. This alertness acts as an equilibrium force. The presence of widespread ignorance characterizes the state of market disequilibrium. As a result of this widespread ignorance several useful opportunities were not explored. The price a market participant is expected to receive for the services and a price the consumer is ready to pay for his products all determine the optimum course of market action by an entrepreneur.

Van Mises has introduced human action... which does not conceive the decision maker to a framework of given ends and means. This concept is broader than economizing behaviour for the reason that the concept of human action reflects not only the manipulation of given means to correspond generally with the hierarchy of given ends, but also the very perception of the ends-means framework within which allocation and economizing are to take place. Economizing behaviour necessarily skips the work of identifying means and ends. Human action treats both tasks—that of identifying the relevant ends-means framework and that of seeking efficiency with respect to it as a single, integrated human activity.

Entrepreneurship: as Function of Risk and Uncertainty

According to Frank Knight, entrepreneurs bear the responsibility and the consequences of making decisions under conditions of uncertainty. Where there is uniqueness of the situation, the uncertainty cannot be eliminated by creating structures which consolidate or group a number of situations. Some of the structures include

a. the selection of specialized institutions (such as insurance companies),
b. the bearing of risk by controlling the future (through overwhelming market power)

c. the accurate power of prediction (through incurring costs of obtaining data).

However, risk can be computed, some of these methods can be used to reduce the degree of uncertainty.

Knight entrepreneur bears risk. The ultimate decision making and control of the firm lies within the risk bearer and not with the hired manager. A significant implication of this approach is the notion that changes in the relative prices can induce individuals either to become an entrepreneur for an uncertain return or to become labourers at a fixed but certain wage rate. Thus, he postulated that at a given wage rate, an individual agent chooses between the uncertain profit of being an entrepreneur or certain wage rate of a labour. In short, the entrepreneur is the individual who decides whether a business exists, chooses the field of the business and determines the way in which the business is to be run. On the other hand, the employee, whether he is a labour or an executive, is subject to the overall direction of the entrepreneur. The work of the employee is a routine task of energising his best judgement and leaving the consequences to others.

The supply of entrepreneurship involves three factors: They are i) ability ii) willingness iii) power to extend such guarantees. He also located the psychological, social and economic factors governing the supply of entrepreneurship. In a world of uncertainty, the entrepreneur is a new economic functionary endowed with knowledge, judgement, foresight, confidence in his own judgement, and capacity for ruling others.

In the opinion of Knight, it is fruitless to try to separate profit from interest since the entrepreneur, almost of necessity, owns property. Profit is a residual share of income which falls to person in responsible control of business, who generally also receives property income. He also analysed the impact of uncertainty upon the profits of entrepreneur. Profit is viewed as a return to the
function of entrepreneurship as distinguished from the schumpeterian view that entrepreneurship is not solely motivated by profit.

Knight’s approach is pragmatic where he asserts that entrepreneur assumes risk and uncertainty and obtains a reward for the risks taken. But his contention that an individual either becomes an entrepreneur or a labour is too restrictive. No entrepreneur will for the sake of escaping from uncertainty and risk would take himself to be a labourer.

Similar view was expressed by Lern Walras (1965) when he considered entrepreneur as an economic agent who hires other factors to produce certain product and pays for others and if anything is left as residue, he takes it as profit. But, when residue becomes negative, he will no longer prefer to be a hiring agent, he would rather sell his own services to get atleast the undue of marginal product as other factors do. Thus, Walras characterized that entrepreneurship is not itself a factor of production but rather a function that can be carried on by any agent, say, the capitalist or the salaried manager. Thus, entrepreneur is considered a co-ordinator of the factors of production.

2.3 INTEGRATED APPROACH TO THEORY OF ENTREPRENEURSHIP

In this section, an attempt is made to build an integrated approach to theory of entrepreneurship, based on the theoretical literature presented in section one. Every theorist on entrepreneurship has looked at the problem on the basis of his speciality and therefore, can at best provide only a limited view of entrepreneurial phenomenon. This is because the various factors which cause emergence of entrepreneurship are integral and not additive. They are inter-locking, mutually dependent and mutually reinforcing. The multifactor approach is necessary to understand the relevant issues concerning the concept of entrepreneurship which can not be employed adequately by any single theory and hence the need for this integrated approach.
Some scholars tried to club the various theories into sociological, psychological and economic theories. The Psychologists emphasis certain non-materialistic, inner, psychic concerns as the prime movers for risk-bearing and innovation. The Sociologists stress the society’s value and status hierarchy as the main force governing entrepreneurial activity. However, economists consider the structure of economic incentives found in the market environment as relevant. But, it is neither necessary nor possible to classify these theories into such categories. To take for instance, the theory of Max weber may well be classified as sociological or psychological. As such, they are classified into themes which these theories address to:

1. Supply of entrepreneurs
2. Characteristics and typologies of entrepreneurs
3. Functions of entrepreneurs and
4. The role of entrepreneurship in economic development.

There are several factors that govern entrepreneurship in a country. It is possible to identify them on the basis of the experience of industrialized economies of the West and it will be easily understood that their importance varies from country to country. Countries differ in various respects such as socio-cultural conditions, resource endowment and past histories. It is therefore not possible to make any generalizations as regards the influences which act and react on economic activity and on entrepreneurship. However, a review of literature on the nature of entrepreneurship in the early states of industrialization of the developed economies will be helpful in formulating a series of hypotheses which can be tested in the context of developing economies.

Discussing the circumstances which favoured the rise of entrepreneurs in Western industrial nations, Habakkuk pointed to the key role played by the innovating entrepreneurs and business leaders. Besides this, imitative entrepreneurship which involved a considerable degree of initiative and vigour also contributed substantially to the process of industrialization. Among these entrepreneurs he finds
differences in respect of both motives that inspired them and their background and objectives. While some were interested in quick speculative gains, others had long-run growth in their minds. But “despite these differences, most entrepreneurs had certain common characteristics; a flair for the possibility of new products, unexploited raw material supplies, untapped markets, willingness to take considerable risk; vision, drive and initiative the ability to devote their whole energies completely to attain their ends.”

Most of these entrepreneurs who owned and managed their enterprises in the early stages expanded their enterprises through ploughing back of profits. In the later stages of industrial development technological as well as organizational changes favoured the growth of corporate enterprises.

The spurt in entrepreneurial activity needs an explanation as it is not common for human beings to sacrifice leisure and current consumption in order to accumulate saving for productive investment. Both the socio-religious features of the countries and high degree of social mobility go a long way in explaining large number of entrepreneurs devoting themselves to the task of economic development. No doubt there were differences among the Western countries in this respect. While in the United States there were few competitors to business success as source of social prestige, in Western Europe land ownership, bureaucracy, the army and the professions were all serious competitors to business for the services of the able men. “In Western Europe therefore business has had to face in the USA. But in this respect, Europe is becoming more like America. . . . The wider therefore the circle from which a country draws its businessmen, the more likely it is to produce great entrepreneurs.”

Now the question arises, what determines entrepreneur’s behaviour once an individual becomes an entrepreneur. Max Weber explained the steadfastness of Western entrepreneur in terms of the Calvinist ethic which embodies the preaching that an individual should work not only for worldly
ends but also for business success or success in any walk of life. According to Weber, this belief provided the psychological foundation for the emergence of a large class of entrepreneurs. It is only a force like religion or ideology that makes people put in their best that immensely contributes to the development. Habakkuk illustrates that point in the following way. “An almost religious faith in democracy and free enterprise reinforces the drive and thrust of American entrepreneurs. The devotion to Marxism might have played somewhat similar role in Soviet Russia. Nationalism has often provided the extra energy required for great entrepreneurial effort as the achievement of national unity did in the 19th century Germany.”

The argument that profits alone cannot induce a person to put into his work immense effort and concentration, unless strengthened by a belief that his work serves a wider purpose, is convincing and Calvinism did create such a belief. Besides the motivation, the social approval of entrepreneurial activity plays an important part. In a society which considers business an inferior occupation, there is very little chance for entrepreneurs to come up in large numbers. Where social status is determined by factors other than achievement of success, the scope for entrepreneurial growth is highly circumscribed. “But where social standing depends on success in one’s occupation a man has a very strong incentive to devote all his energies to his occupation, particularly if success is measured by income.”

Underdeveloped countries suffer from a variety of social obstacles for a person to rise in socio-economic status. Lamb in his study of Indian Business Communities made the following observation: “Leadership in the civil service, the professions, the universities, the All India Congress, and the trade union movement has come largely from intelligentsia who have played little part in Indian business. Often they disparage business, regarding its purpose as somehow alien to what they believe authentic Indian values.”
But it is possible that even in countries with very low social mobility, the entrepreneurial growth may still take place as is the case with Japan and aristocratic entrepreneurs in Europe. Arthur Lewis refers to the Japanese case in the following words: “This swift transformation of an old type aristocracy into a new type capitalist class, was profoundly important in increasing supply of entrepreneurship in Japan in the crucial last quarter of the 19th century.”

In underdeveloped countries economic environment as well as social barriers seems to stand in the way of entrepreneurial growth. In general it may stated supply of entrepreneurship depends on socialization process, education, training and experience which subsequently orient the individuals towards specific carriers depending on the environmental factors, like the opportunities and limitations. Certain groups are more entrepreneurial than others. These groups provide values and training to the younger generation, who in turn take to entrepreneurial carrier. But not all individuals of these groups become entrepreneurs which is due to the fact that each individual has one’s own individual experiences and may lack resources or motivation to move into their lines.

A large number of studies are conducted in India and elsewhere which try to delineate the entrepreneurial characteristics. As a result, a baffling list of adjectives is available to describe the entrepreneurial personalities, and often conflicting results are obtained. However, four characteristics are commonly repeated; namely, risk-taking ability, innovativeness, managerial skills and achievement. It may be stressed that these characteristics may not apply to all entrepreneurs. The degree and their presence or absence would depend on the size of the enterprise and the level of development of the locate of enterprises. In case of small enterprises, most of these qualities need to be present in some degree in view of multifarious roles of a small scale entrepreneur, as he cannot afford specialists who may be delegated some of the functions.
In small enterprises an individual performs roles varying from bringing together all the necessary inputs, including finance, labour licenses, machinery and equipment, land and building, and also performs functions related to the production, management, and marketing of the products. However, in medium and large companies, many of these functions can conveniently be delegated where an entrepreneur can confine oneself mainly to opportunity scanning, resource mobilisation including professionals and overall supervision and direction of the company. In such cases, however, the entrepreneurial roles get confounded with the organisation.

In most theories of economic development, the entrepreneur, although very well recognized, could not find any particular place especially in the production function. The difficulty is that the concept of entrepreneurship is multi-disciplinary and is a qualitative phenomenon which does not display very quantifiable pattern. As such, there is a need to construct socio-psychological measures that could be incorporated into the production to arrive at entrepreneur performance in either overall economy, different sectors of industries, varying sizes of enterprises, or according to the regional context.

In summary, it may be stated that the emergence and growth of entrepreneurship depends on the entrepreneurship qualities like innovatives, risk-taking ability, managerial skills, and high achievement among the groups or individuals at a given point of time when favourable economic, social, cultural, and religious values and environment exist for the development of such qualities.
REFERENCES

CHAPTER-III

REVIEW OF LITERATURE