CHAPTER : XIV

ENTREPRENEURSHIP AND MANAGEMENT

Economic backwardness in many countries may be traced to a relative shortage of inventors, innovators and risk-bearers. Growth is not a function of land, labour, capital and technology alone. There is the need to combine these in correct proportions, set the tasks and see to their accomplishments. And it is here where the organisers or entrepreneur's role assumes importance. The role of the entrepreneur may be performed by the manager, the risk bearer or the administrator.

Entrepreneurship clearly refers to the capacity for innovation, investment and active expansion in new markets, products and techniques. As such, entrepreneurship may reflect superior information and imagination which subjectively reduces the risks and uncertainties of new opportunities earlier ignored or rejected by other investors. Alternatively, the entrepreneur has special aptitudes for bearing risks and uncertainty which permit him to act as the promoter and catalytic agent who siezes new investment and
production opportunities. These traits, in effect, shift the opportunity set and increase the probability that a new project will in fact be implemented. Viewed in these terms, entrepreneurship is so important for economic development that it has sometimes been conceptualized as a "fourth factor of production".

In economic theory entrepreneurship has been regarded as the fourth factor of production (together with land, labour and capital), with profit being its reward. It is assumed that the entrepreneur aims to maximize profits although in practice he may not always act with this as his sole aim. The entrepreneur shifts resources from areas of low productivity and low yield to areas of higher productivity and higher yield. Of course, there is always a risk that the entrepreneur may not succeed. But if, even moderately successful, the returns should be more than adequate to offset the risk undertaken. The entrepreneurial spirit is therefore an essential component in a profit-based economy.

It was Joseph Schumpeter who first laid great emphasis on the role of the entrepreneur and innovation in the development process. Economic growth or material progress results from what he calls process of creative destruction, which is linked up with innovation and is instigated by competition. In fact, innovation appears to be the driving force behind competition. But innovation requires decision-takers and hence the importance of entrepreneurship in economic development.

Schumpeter made a fundamental distinction between invention, which was the discovery of new technique, and innovation, which consists in the practical application of an invention in production for the market. Somewhat analogously, Rostow distinguishes the propensity to develop pure science, and that to apply science in output for the market. In Schumpeter's view, invention was performed by inventors while innovation was the task of the entrepreneur.

Innovation are of two kinds: production of new goods and new methods of producing old goods. Innovation

may be capital-saving, labour-saving or neutral with respect to inputs. Schumpeter's classification of the forms that innovation might take, can also be separated by whether they are generally cost-reducing or demand-increasing. The forms that are predominantly cost-reducing include: (a) introduction of a new production method, (b) utilization of a new source of raw materials, (c) adoption of new forms of organisation. Those of a demand-creating nature are (d) introduction of a new product including quality improvements, (e) opening of new markets. This five-fold classification of innovation illustrates the wide variety of forms that innovation may assume. The impact can be both direct and indirect.

We can list the characteristics or capacities that an entrepreneur must possess. Firstly, he must have the ability to discover investment opportunities. Secondly, he must have access to resources and the capacity to marshal whatever resources are necessary for the venture so that the requisite factors of production can be obtained.

Thirdly, he must have the ability to "promote" the venture. Fourthly, he must have the ability to organize the enterprise.

From the above it is obvious that the capacity and willingness to undertake risk and to innovate constitute the rudiments of entrepreneurship. The entrepreneur always searches for change, responds to it and exploits it as an opportunity. The ability of individuals to perceive new opportunities for profit and the ability and willingness to exploit them are indeed crucial in economic development. The economy is especially fortunate when the qualities of the entrepreneur are possessed by individuals who are also resourceful, thrifty and industrious, have technical or administrative skills and are willing to take a long view.

Entrepreneurship has been classified into the following types by Clarence Danhof:

1. Innovating entrepreneurship: Characterized by aggressive

assemblage of information and the analysis of results deriving from novel combinations of factors. Men of this group are frequently aggressive in experimentation and exhibit celerity in putting attractive possibilities into practice.

2. Imitative entrepreneurship: Characterized by readiness to adopt successful innovation inaugurated by innovating entrepreneurs.

3. Fabian entrepreneurship: Characterized by very great caution and skepticism which imitates only when it becomes perfectly clear that failure to do so would result in a loss of the relative position of the enterprise.

4. Drone entrepreneurship: Characterized by a refusal to adopt opportunities to make changes in production even at the cost of severely reduced returns relative to other like producers. The "drone" does not perform the entrepreneurial function, but as he is in a position to innovate, he offers a potential and might be changed into one of the other innovating types if effective motivation could be discovered. Both on the supply and on the demand side entrepreneurship appears to create a serious problem
for the underdeveloped countries. If the supply of entrepreneurs can be enhanced, the development would proceed expeditiously.

Lack of entrepreneurship means a lack of specific type of a capacity among the people. According to W. Arthur Lewis, Economic growth requires not that all should be adventurous, but that there should be an adequate supply of innovators. In every community there are some men whose natural bent is to experiment with new techniques, new products, or new economic forms, in defiance of established opinion or of vested interests. Some societies admire and encourage such people while others regard them as buccaneers to be suppressed. Economic growth depends very largely on the extent to which the social atmosphere nourishes such people and gives them scope.

The supply of entrepreneurs will depend upon the expansion of the number of people possessing the requisite capability as well as on the enhancement in the capacities of those already belonging to the entrepreneurial

group. The growth of entrepreneurship depends on the prevailing size of the entrepreneurial group; the level of per capita income, and the rate of growth in per capita income. The lower the level of per capita income, the smaller the supply of entrepreneurship relative to the demand. At low per capita income levels people cannot afford to take the time to acquire the necessary skills to become potential entrepreneurs. They cannot be relieved from the day-to-day activities necessary in earning a livelihood and, therefore, cannot engage in exploratory and promotional activities that go with entrepreneurship. Nor can they spend much time in the acquisition of entrepreneurial skills since in the early stages such activities carry few rewards and involve mostly costs.

From the demand side the magnitude of entrepreneurship can be determined by the amount of money or value of resources that can be deployed for entrepreneurial activities in the economy. But this amount would depend upon on the existence of incentives or entrepreneurial opportunitites. In the absence of investment opportunitites

there would be no funds forthcoming regardless of the entrepreneurial capacities of the people. Access to opportunities depend on the social and economic position of a person as well as on the extent of social and economic mobility.

The economic environment must provide a stimulus to develop in men the entrepreneurial characteristics. The economic environment should be such that the risks taken pay off better than anticipated. This obviously would serve as a stimulus to the spread of this particular type of risk-taking. The drive of some people to acquire the necessary capacities and to engage in entrepreneurial activities will depend on the rewards for such activities, on the interest in such rewards, and on the disappearance of alternative endeavours. The greater the rewards, the greater the number that will enter the entrepreneurial group. Of course, the interest in such financial rewards will depend on the attitudes of the community at the outset. Where the attitudes are still of a traditional nature and the most highly prized rewards are non-economic, a shift in attitudes toward economic aspirations
will help to increase the number of entrepreneurs.

The under-developed countries generally exhibit an entrepreneurial preference for non-industrial enterprise. This is due to the economic fact that the prospects for successful industrial activity are less certain in these areas. Trade, land speculation and money-lending are spheres in which both custom and economic organisation reduce the degree of risk and in which a quick and large profit is generally possible. However, it must be noted that these entrepreneurial classes do often turn to industrial activity in the underdeveloped areas when rapid expansion occurs and the risk of industrial activity is thereby reduced. Often, under protective state measures such as tariffs, sheltered markets, subsidies and insurance, the relative hazards of industrial entrepreneurship are diminished and the very same classes that preferred the traditional forms of entrepreneurship enter the industrial sector.

In economically backward societies there are difficulties in the way of developing and using the

entrepreneurial qualities. The force of custom, the rigidity of status and the distrust for new ideas and for the exercise of intellectual curiosity, combine to create an atmosphere inimical to experiment and innovation. The collectivism of the extended family, the village, the clan or the tribe also inhibits innovation because the rewards, if any, have to be shared widely.

Like entrepreneurship, managerial skills are at a premium in underdeveloped countries. While entrepreneurs often display financial and commercial insight they lack the capacity to organise and manage production units. In present times the managerial function has partly substituted the prevalent entrepreneurial function. Especially in large corporations the entrepreneurship is exercised by directors and salaried managers. Today, the entrepreneurial leadership is provided by managers who are the decision-makers, risk-takers and organisers in a modern commercial enterprise. Their functions, are to supply risk capital, decide on what to produce, at what scale of production, and with what combination of inputs, to manage the enterprise, and to bear the risks, in the sense that they are
accountable for the success and failures of the company.

Entrepreneurship is based on one and the same principles, whether the entrepreneur is the State, a large corporation or an individual. Indeed, it has been claimed that the inefficiencies of state-owned or nationalized industries are the direct result of the replacement of entrepreneurs by high-ranking civil servants. One of the problems of a mixed economy is to maintain sufficient incentives to encourage entrepreneurial activity.