

## Chapter 2

### CONCEPT OF ENTREPRENEURSHIP

Entrepreneur is a person who creates an enterprise. The process of creating an enterprise is called entrepreneurship. i.e., entrepreneurship is more than the starting of an enterprise.

#### Meaning and definition of entrepreneurship

Entrepreneurship is the process of changing ideas into commercial opportunities and creating value. It is the tendency of a person to organize the business of his own and run it profitably.

#### Definitions.

There is no single definition of entrepreneurship. The term entrepreneurship has been defined by several authors differently. Some of them are:

According to A H Cole, "entrepreneurship is the purposeful activity of an individual or a group of associated individuals undertaken to initiate, maintain or organize a profit oriented business unit for the production or distribution of goods and services"

In the words of Musscleman and Jackson, " entrepreneurship is the investing and risking of time, money and effort to start a business and make it successful"

Thus, entrepreneurship is the process of identifying opportunities in the market place, arranging the resources required to pursue these opportunities and investing the resources to exploit the opportunities for long term gains.

Entrepreneurship is mathematically defined as follows:

$$\text{Entrepreneurship} = \text{Entrepreneur} + \text{Enterprise}$$

All activities undertaken by an entrepreneur to bring a business unit into existence are collectively known as entrepreneurship. It is the process of exploiting an opportunity by a unique combination of resources. In short, entrepreneurship is the process of creating a business enterprise.

### **Nature and characteristics of entrepreneurship**

Entrepreneurship is a function of innovation.

Entrepreneurship is a function of leadership.

Entrepreneurship is an organization building function.

Entrepreneurship is a function of high achievement.

It is an economic activity.

It involves assuming the risk associated with the facilitation of production in exchange for profit.

It is concerned with employing, managing, and developing the factors of production.

It is the process of creating value for customers.

It is a strong and positive orientation towards growth in sales, income, assets and employment.

Entrepreneurship is not a onetime phenomenon; it occurs overtime.

### **Creativity, invention and innovation**

Creativity is the application of a person's mental ability and curiosity to discover something new. It is the ability to bring something new into existence. Creativity means to use one's own thought or imagination to create something new as work or art or invention.

**Creativity = Imagination + Action.**

**Creativity** : It is the soul of entrepreneurship. While entrepreneurship is about making things happen and deals with the [practical challenges of implementation, creativity is the capacity to develop new ideas, concepts and process.

**Invention**: invention simply means idea behind things it means to create or devise something new. It involves the discovery of new ideas, new products or new methods. It is the creation of new products, service or process.

**Innovation:** creativity leads to innovation. Innovation simply means introducing something new. To innovate means introduce within a company or market place , new technologies, products. Innovation is the successful exploitation of new ideas. It is the process of doing new things. It is more than a good idea. Ideas have no value unless they are converted into useful products or services. Innovation is the process of creating new ideas and putting them into practice. There are two types of innovation – process innovation and product

innovation. Process innovation results in better way of doing things. Product innovation results in the creation of new or improved products.

#### **Difference between innovation and creativity.**

Innovation is different from creativity. Creativity is the ability of bringing something new into existence. But innovation is the process of doing new things. In other words, innovation is the activity of bringing something new into existence.

Ideas have no value until they are converted into new products ,services or processes. Innovation, therefore, is the transformation of creative ideas into useful applications. Creativity is a prerequisite to innovation. This means that creativity is needed for innovation.

#### **Difference between innovation and invention**

Innovation is different from invention. An invention is discovery of new things and new methods. But innovation is utilization of inventions to produce new and better quality products that give greater satisfaction to the customers and higher profit to the entrepreneur. Invention facilitates innovation. An invention becomes an innovation only when it is applied in a product or service that can be successfully sold in the market. When invention is applied commercially it becomes innovation. An inventor produces the idea and the innovator implements it for economic gain.

Creativity is the talent of the inventor and innovation is the talent of the entrepreneur who turns ideas into reality. Entrepreneurs do both these things but they do more. They do not just complete the successful application of an idea; they build something of value in the process.

### Difference between invention and innovation.

Invention	Innovation
<ol style="list-style-type: none"><li>1. It is the creation of new product, service or process</li><li>2. May not be commercialized.</li><li>3. May be for economic or non-economic motive.</li><li>4. May bring few changes in organization.</li><li>5. Precedes innovation.</li><li>6. Invention = innovation – commercial exploitation.</li><li>7. Work of scientists.</li></ol>	<ol style="list-style-type: none"><li>1. It is the introduction of new product service or process onto the market place</li><li>2. Results into commercialization.</li><li>3. Innovation is usually for economic motive</li><li>4. Brings organizational change.</li><li>5. Succeeds or follows innovation.</li><li>6. Innovation = invention + commercial exploitation.</li><li>7. Work of entrepreneurs.</li></ol>

### Risks involved with entrepreneurship.

We can observe rewards, successes and achievements of entrepreneurs. However, there is also a dark side of entrepreneurship. The dark side of entrepreneurship is the risks involved in it. Entrepreneurship involves the following risks.

1. Financial risks : The entrepreneur has to invest money in the enterprise on the expectation of getting return .however, there is no guarantee for getting back profit or investment. He may get attractive income or he may get only limited income. Sometimes he may incur losses. If the venture fails, money or resources will be lost.
2. Personal risks: Starting a new venture uses much of the entrepreneurs energy and time. Consequently, his or her other commitments may suffer. Moreover, he or she has to sacrifice the pleasures attached to family and social life.
3. Career risks: This risks might be caused by a number of reasons such as leaving a successful career to start a new business or the potential of failure causing damage to professional reputation. If the venture fails, it may be difficult to find a job or go back to old job.
4. Psychological risks : This is one of the greatest risk associated with entrepreneurship. Psychological risk is the mental agonies an entrepreneur bears while organizing and running a business venture. A lost job can be replaced; lost time can be attributed to prepare for the future; etc. but some entrepreneurs who have suffered financial catastrophes have been unable to bounce back. The psychological impact has proven to be too severe for them.

## **Obstacles inhibiting entrepreneurship. ( Barriers to entrepreneurship)**

Entrepreneurial development is very slow in under developed and developing countries. This is due to the presence of several factors or obstacles. In advanced countries, there is an ideal atmosphere for entrepreneurship development. But in less developed countries, there are only imitating entrepreneurs. They cannot bring much economic prosperity and growth. It may be noted that, there are number of obstacles which inhibit the development of entrepreneurs in under developed countries. These obstacles or barriers to entrepreneurship are classified into three as follows:

### **A. Environmental Barriers**

### **B. Personal Barriers**

### **C. Social Barriers.**

**Environmental Barriers :** It involves:

- a) Non- availability of raw materials : Non- availability of material especially during peak period is one of the obstacles inhibiting entrepreneurship. This leads to competition for raw materials. This causes increase in the price of the raw materials.
- b) Lack of skilled labour : Labour is provided by human resources. This is the most important resource in any organization. Unfortunately, desired manpower may not be available in an organization. This is either due to the lack of skilled labour or due to lack of committed or loyal employees in the organization.
- c) Lack of good machinery : Good machineries are required for the production of goods. Because of rapid technological changes machines become obsolete very soon. Hence, they need to be replaced. This requires a lot of cash. Small entrepreneurs find it difficult to get large amount of cash for installing modern machinery.
- d) Lack of infrastructure : Lack of infrastructure facilities is a major barrier to the growth of entrepreneurship particularly in under developed and developing economies. The infrastructural facilities include land and building , power supply, transportation, water and drainage facilities etc.
- e) Lack of fund : Fund is one of the most important components required for the successful running of a business. There are various methods by which an entrepreneur arranges for funds. Many people do not enter into entrepreneurial activities because of lack of funds. Banks and financial institutions are not giving adequate support. Thus, shortage of capital is a major factor hindering the growth of entrepreneurship.

- f) Other environmental barriers : Lack of business education, lack of motivation from government, corruption in administration, high cost of production etc. are the other environmental barriers that inhibit the growth of entrepreneurship in under developed countries.

**Personal barriers** : Personal barriers are those barriers that are caused by emotional blocks of an individual . They cause mental obstructions to the individual and lead to the failure of the business. some of the personal barriers are:

- a) Unwillingness to invest money : Even though people have money, still they do not come in entrepreneurship. They are not willing to invest money in business. They fear that the money invested in business will be lost. In short, they are not willing to take risk of investing money in business.
- b) Lack of confidence : Many people think that they lack what it takes to become an entrepreneur. They look at successful entrepreneur and think that they could never be able to find a successful idea. They think that they would not be able to attract the resources required. They feel that they could not master all the necessary skills.
- c) Lack of motivation : When an individual starts a new venture, he is filled with enthusiasm and drive to achieve success. But when he faces challenges of real business or bears loss, he loses interest or motivation. This causes further loss of business and the entrepreneur starts himself/herself from mainstream competition.
- d) Lack of patience : This barrier is more dominant among young entrepreneurs. The desire to achieve success in the first attempt or to become rich very soon is the prime motivating factor of modern youth. They want to achieve instant success and believe it would be a cakewalk. When such dreams do not come true, they lose interest. This gradually drives to fail in business.
- e) Inability to dream: It has been rightly said, “think big to achieve big”. The entrepreneurs who are short on vision or become satisfied with what they achieve, sometimes lose interest in further growth of business.

**Social barriers** : The social barriers are dominant factors inhibiting entrepreneurship. The social attitude inhibits many people even from thinking of starting a business. The important social barriers are as follows:

- a) Low status : An important barrier to entrepreneurship is the low status of business men in the eyes of society. The society think that entrepreneurs are the people who exploit the society. Thus the attitude of the society towards entrepreneurs is not positive.

- b) Custom and tradition of people: Most people do not like to become an entrepreneurs. They want white collar job. Even parents who are entrepreneurs wouldn't like their children to be entrepreneurs. Thus lack of support from society and family hinder the growth of entrepreneurs.

### **FACTORS AFFECTING ENTREPRENEURIAL GROWTH.**

Entrepreneurship is a function of several factors. In other words, there are large number of varied factors which contribute to the growth of entrepreneurship .These factors can broadly classified into five;

1. Psychological factors.
2. Cultural factors.
3. Social factors.
4. Economic factors.
5. Personality factors.

1. Psychological factors: It involves the following

- a) Need for achievement
- b) Personal motives or expectations.
- c) Recognition
- d) Need of authority (Authority motivation)

2. Cultural factors: It involves the following

- a) Culture
- b) Religious belief
- c) Minority groups
- d) Spirit of capitalism

3. Social factors: It involves the following

- a) Legitimacy of entrepreneurship
- b) Social marginality
- c) Family, role models and association with similar type of individuals
- d) Caste system
- e) Occupation
- f) Education and technical qualifications
- g) Social status
- h) Social responsibility

4. Economic Factors: It involves the following

- a) Infrastructure facilities
- b) Financial resources
- c) Availability of material and know how
- d) Labour condition
- e) Market
- f) Support system
- g) Government policy

5. Personality factors: It involves the following

- a) Personality
- b) Independence
- c) Compulsion



## **Practice or process of entrepreneurship development**

Entrepreneurship development is a process. The whole process of developing an entrepreneur, making him start a venture, supporting and sustaining him involves a cyclical process, which consists of the following components or phases.

1. Stimulating phase: Stimulating phase includes the following activities;
  - a) Creating awareness among the people
  - b) Motivating or inspiring people to become an entrepreneur
  - c) Publicity for entrepreneurial opportunities
  - d) Identification of potential entrepreneurs
  - e) Supply of information on project planning and implementation
  - f) Assisting in the product identification and market survey
  - g) Assisting in the project report preparation
  - h) Counseling
2. Supporting phase: It involves the following activities;
  - a) Assisting in the registration of a unit
  - b) Assisting in obtaining finance
  - c) Helping in getting land, building, power, water etc.
  - d) Helping in obtaining various permissions and licenses
  - e) Supply of scarce raw materials
  - f) Granting incentives and subsidies
  - g) Assisting in marketing
  - h) Providing management consultancy
3. Sustaining phase: It includes the following activities;
  - a) Modernization of unit
  - b) Diversification, expansion etc.
  - c) Assisting in improving business
  - d) Creating need based common facility centre
  - e) Product standardization and testing services
  - f) Additional finance for rehabilitation of units.

