**Chapter One**

**Entrepreneurship and Free Enterprise**

* 1. **Definition and Philosophy of Entrepreneurship**

**1.1.1 Definition of Entrepreneurship**

The word “entrepreneur”, derived from the French verb entreprende, and the German word “unternehmen”, was coined by the French Economist, Richard Cantillon in the early eighteenth century. These words literally mean “to undertake”. In Cantillon’s view, an entrepreneur is a person who buys at certain prices and sells at uncertain prices. This definition primarily focuses on the element of risk-taking and decisions about resource allocation

The concept of entrepreneurship is a complex phenomenon. Broadly, it relates to entrepreneur, his vision and its implementation. Entrepreneurship refers to a process of action an entrepreneur undertakes to establish his or her enterprise.

Entrepreneurship is a composite skill, the resultant of a mix of many qualities and traits. These include imagination, readiness to take risks, ability to bring together and put to use other factors of production, capital, labor, and land as also intangible factors such as the ability to mobilize scientific and technological advances. Above all, entrepreneurship today is the product of team work and the ability to create, build and work as a team. The entrepreneur is the maestro of the business orchestra, wielding his/her baton to which the band is played.

* Entrepreneurship refers to an individual’s ability to turn ideas into action. It enables people to think creatively and to be an effective problem solver.
* Entrepreneurship is an organizational and management approach that enables persons to respond to change and solve problems in whatever situation (either business or non-business) they may find themselves.
* **Encourage competition**, which is critical in sustaining a free market system and promotes economic growth, social progress and the spread of prosperity among a country’s population.
* Being **self-employed and applying entrepreneurship** may be the only opportunity to be self-sufficient and to find a job with a decent wage for certain groups of people in their communities.

**There are five elements of entrepreneurship:**

* Observing the environment/identifying gaps,
* Identifying opportunities,
* Gathering the necessary resources,
* Implementing the activity and
* Receiving rewards for engaging in the activity.

**What is Entrepreneur?**

An entrepreneur is the man or women who are able to actualize his/her innate potentials and develop a character that is not dependent but independent. He/she is that person who undertakes the voyage of creating value by pulling together a unique package of resources to exploit opportunities. He/she has the capacity to build something from practically nothing- initiating, daring, doing, achieving and building and enterprise.

Entrepreneurs have been described as people who have the ability to see and evaluate business opportunities, gather the necessary resources to take advantage of them and initiate appropriate action to ensure success.

Entrepreneurs are achievement oriented, like to take responsibility for decisions and dislike repetitive and routine work. Creative entrepreneurs possess high level of energy and great degree of inauguration, which combined with a willingness to take moderate, calculated risks, enable them to transform what began as a very simple ell-defined idea or hobby in to something concrete.

**What is Enterprising?**

* On a personal level/in its wider sense, enterprising can be any identified idea that a person can translate into a planned and satisfactorily implemented activity.
* In the business sense/in its narrower sense, enterprising refers to a business venture or undertaking.
* In another way an enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form.

Practically all undertakings can be referred to as enterprising, i.e.

* + idea identification,
  + planning,
  + implementation,
  + successful completion of an activity and
  + receiving the rewards.

By understanding the enterprising concept, you can appreciate that all people have the potential to be enterprising. Some people are enterprising when they own a business. Enterprising men and women are able to deal positively with the challenges and problems they face in their daily lives. Being enterprising can bring benefits to you and also help you to become a valued member of your family, community, place of work and society. By adopting an enterprising approach to your activities, you will know what to do in whatever circumstances you find yourself in. This kind of approach will enable you to appreciate the challenges of life because you will be able to translate challenges into positive results.

**Entrepreneur and Entrepreneurship**:

The term ‘entrepreneur’ is often used interchangeably with ‘entrepreneurship’ but conceptually; they are different just like the two sides of a coin. The differences are as follows:

**Entrepreneur Entrepreneurship**

* Refers to a person …………………………………………..…Refers to a process.
* Able to Visualize…………………………………………….…vision
* Creator…………………………………………………………creation
* Organizer…………………………………………………………organization
* Innovator…………………………………………………………Innovation.
* Decision maker…………………………………………..………Decision
* Leader………………………………………………………………Leadership
* Motivator……………………………………………………………motivation
* Programmer………………………………………………………….action
* Risk taker………………………………………………………….risk taking
* Communicator………………………………………………….….communication
* Administrator………………………………………………….…...administration

**Entrepreneurial Competencies**

Competencies refer to underlying characteristics of a person which results in effective or superior performance in a job. The following are major competencies that contribute towards top performance.

* + - 1. **Initiative** – taking action beyond job requirements or the demand for the situation. Doing things before being asked or forced by the events. Acts to extend the business in to new areas, product or service.
      2. **Assess and acts on opportunities** – looks forward and take action on opportunities ( business, educational or personal growth) seizes unusual opportunities to obtain financing equipment, land, workspace or assistance.
      3. **Persistence**- takes repeated action to overcome obstacle.
      4. **Information seeking**- take action to get information to help reach objectives or clarify problems.

1. Does personal research on how to provide a product or service.
2. Consults experts for business or technical advice.
3. Seeks information or asks question to clarify what is wanted or needed.
4. Use information network to obtain useful information.
   * + 1. **Concern for high quality of work**-Doing things that meet or beat existing standards of excellence.
       2. **Commitment to work contract**- place the highest priority on getting a job completed.
       3. **Efficiency oriented**- finds ways to do things faster with fewer resources or at lower sources or at a lower cost.
       4. **Systematic planning**- plans by breaking a large task down in to subtasks. Develops plans that anticipate obstacles. Evaluate alternatives. Take a logical and systematic approach to activities.
       5. **Problem solving**- generates new ideas or innovations sometimes. Switches to an alternative strategy to reach a goal.
       6. **Self confidence**- has a strong belief in self and own abilities. Does something that he says risky. Sticks with own ability to complete a task or meet a challenge.
       7. **Assertiveness** - confronts problems and issues with others directly tell others what they have to do and disciplines those failing to perform as expected.
       8. **Persuasion** – Successfully persuade others. Convince someone to buy a product or service. Convince someone to provide financing. Convinces someone to do something else that he would like that person to do.
       9. **Use of influential strategies**: Use of variety of strategies to affect others. Acts to develop business contacts. Uses influential peoples as agent to accomplish objectives. Selectively limits the information given to others.
       10. **Monitoring**: personally supervises all aspects of a project.
       11. **Concern for employee welfare**: Take positive action in response to employees’ personal concern and improving the welfare of the employees.

All the above competencies are instrumental to make a person successful entrepreneur.

**When People Acquire Entrepreneurial Competencies?**

* Seek opportunities
* Take initiatives
* Set SMART goals
* Finds ways to do things better, faster and cheaper
* Be highly competitive
* Uses deliberate strategies to influence and persuade others
* Exploit change
* Deal with uncertainties

**Manager and Entrepreneur**

There are a number of similarities and ambiguities between manager and entrepreneur; and of course, in most small-scale businesses both refer to the same person. However, each of the two concepts is distinct from the other. The major differences between manager and entrepreneur are shown in the following table.

|  |  |
| --- | --- |
| **Manager** | **Entrepreneur** |
| * Management is a profession, which, in principle, can be learnt by formal education and/or practice. * The manager is not necessarily the full risk taker of the business; he or she might be hired personnel like any of the other employees. * Managers tend to be custodial; prefer to stick to proved ways of doing business. * Managers are more oriented to the achievement of short-term goals. * They are rewarded by minimizing risk and avoiding failure. * They tend to delegate tasks and supervise those workers performing the task. | * Entrepreneurship is not a profession; rather, it is a style of life – a tradition. It is not easy to learn it. * The entrepreneur is the full risk taker. He or she is the creator of the business. * Entrepreneurs' activity seeks change by exploiting opportunities. * They look at their business growth over a long period of time. * Entrepreneurs put their own personal finance at risk and they accept risk as part of the entrepreneurial process. * They are directly involved in their organization's operational activities. |

**Investor and Entrepreneurs**

"Entrepreneur" and "investor" are overlapping but not identical terms. Generally all entrepreneurs are investors while not all investors are entrepreneurs for the following major reasons.

|  |  |
| --- | --- |
| **Investors** | **Entrepreneurs** |
| * They are people who invest their money on a business (businesses) * They are profit and/or other forms of utility maximizes. * They do not necessarily maintain strong physical and/or spiritual attachment with their business. An investor may simply be a company, shareholder, who knows very little about the business and/or the company. * They are not necessarily risk-takers. Keeping money in banks or purchasing government bonds with the aim of earning interest, for example, makes one or investor (a financial investors) * They are not necessarily job-creators (consider the above examples on financial investment) * They may duplicate or copy things done by others. Establishing the most common type of business, say opening a kiosk, will a make one an investor. * They are an organization, a group of organizations, and even the state can be (and often are) investor. | * They are people who invest not only their money but also their idea, time, physical & mental energy, and, of course, their own life on business. * They are opportunity maximizes, spiritual satisfaction hunters. * They maintain very strong physical and spiritual attachment with their business and the company. Often, they are the owners and the managers of their firms. They closely follow (often lead) the day-to-day activities of the firm. * They are necessarily risk-takers. Getting financial benefits without being actively involved in the creation of wealth will not make one an entrepreneur. * They are necessarily job-creators. At the minimum, an entrepreneur creates a job for himself or herself. * They are innovators. Duplicating or copying without any change will not make one an entrepreneur. Each entrepreneur is distinct one way or another. * "Entrepreneur" refers to individuals, not to organizations, groups of organizations or the state. Existence of corporate entrepreneurship often referred to, as "Intrapreneurship" is debatable; and if it exists, it must be substantially different type of ER. |

**Types of entrepreneurs**

There are various ways by which entrepreneurs have been classified:-

**Based on the type of business**

1. **Business entrepreneurs-** These are individuals who conceive an idea for a new product or service and then create a business to materialize their idea in to reality. They tap both production and marketing resources in their search to develop a new business opportunity. They may setup a big establishment or a small business unit. They are called small business entrepreneurs when found in small business units such as advertising readymade garments, etc.
2. **Trade entrepreneur**- is one who undertakes trading activities but not concerned with the manufacturing work.
3. **Industrial entrepreneur**- is essentially a manufacturer who identifies the potential needs of customers and tailors a product/service to meet the marketing need.
4. **Corporate entrepreneur**- is an individual who plans develop and manages a corporate body. Corporate is a separate legal entity.
5. **Agricultural entrepreneurs-** are those entrepreneurs who undertake agricultural activities as raising and marketing of crops, fertilizers and other inputs of agriculture.

**Based on motivation**

Motivation is the force that influences the effort of the entrepreneur to achieve his/her objective. Based on motivation entrepreneur can be classified as:

1. **Pure entrepreneur**: an individual who is motivated by psychological and economical rewards.
2. **Induced entrepreneur:** is one who is induced to take up an entrepreneurial task due to the policy measures of the government that provides assistance, incentives and necessary over head facilities to start a venture.
3. **Motivated entrepreneurs**: they come in to being because of the possibility of making and marketing some new product/service for the use of the customers.
4. **Spontaneous entrepreneur**: entrepreneurs start their business out of their natural talents.

**Rewards for Being an Entrepreneur**

* Self-actualization/personal fulfillment
* Feeling of freedom and independence
* Providing jobs and benefits to others (investors, suppliers, bankers, subcontractors, work force, and customers)
* Economic goods (product/service, incomes for workers, profits for shareholders/partners)

**Personal costs to be an Entrepreneur**

* Works long hours
* Always concerned about the business
* Needs high energy
* Sacrifices other important aspects of life
* Limited social life
* Not much time with family and friends
* Financial investment
  1. **History of Entrepreneurship**

A Brief History Of Entrepreneurship Contents Earliest Period, Middle Ages, 17th Century, 18th Century, 19th Century & 20th Century.

**Earliest Period**

Marco polo, as a go-between was an Italian. He wants to trade routes to the far East. As a go-between, He had to sign a contract with a money person to sell his goods. In the contract merchant adventurer took a loan at 22.5% rate including insurance.

Capitalist was the passive risk bearer and merchant adventurer took the active role in trading, bearing all physical and emotional risks. When the merchant-adventurer successfully sold the goods and completed the trip, the profits were divided with the capitalist taking most of them (up to 75%), while the merchant-adventurer settled for the remaining 25 %.

**Middle Ages**

Entrepreneur used to describe both as an actor and a person who managed large production projects. Individuals did not take any risks because all the resources used to provided by the government of the country, all an entrepreneur should do is to manage it.

A typical entrepreneur in the middle age was the priest. The person in charge of great architectural works used to build castles and fortifications, public buildings, abbeys, and cathedrals.

**17th Century**

The connection of the risk with entrepreneurship developed in the 17th century. An entrepreneur was a person who entered into a contract with the government to perform a service or to supply stipulated products. John law, a Frenchman was one of the entrepreneurs in that period. The founder of the royal bank of France and the Mississippi Company, which had an exclusive franchise to trade between France and the new world. Monopoly on French trade eventually led to collapse of the company.

Richard Cantillion, a of the well-known English economist at the beginning of the 17th century, understood Law’s mistake. He viewed the entrepreneur as a risk taker, observing those merchants, farmers, craftsmen, and others sole proprietors “buy at a certain price and sell at an uncertain price, therefore operating at a risk.”

**18th Century**

In the 18th century, the person with capital was differentiated from the one who needed capital. The entrepreneur was distinguished from the capital provider. One reason for this differentiation was the industrialization occuring throughout the world. Eli Whitney was an American inventor best known for inventing the cotton gin. This was one of the key inventions industrial Revolution.

Thomas Edison, the inventor of many inventions. He was developing new technologies and was unable to finance his inventions himself. Edison was a capital user (an entrepreneur), not a provider (a venture capitalist).

**19th & 20th Centuries**

In the late 19th and early 20th centuries, entrepreneurs were frequently not distinguished from managers and were viewed mostly from an economic perspective. The entrepreneur organizes and manages an enterprise for personal gain. The materials consumed in the business, for the use of the land, for the services he employs, and for the capital he requires.

Edward Harriman, who reorganized the railroad in the United States. John Morgan, who developed his large banking house by reorganizing and financing the nation’s industries. Traditional technologies innovations (translators, computers, lasers) that is usually associated with the word invention.

The Egyptian who designed and built great pyramids out of stone blocks weighing many tons each, to laser beams, supersonic planes and space stations.

**1.3 The Role of an Entrepreneur in the Economy**

The entrepreneur who is a business leader looks for ideas and puts them into effect in fostering economic growth and development. Entrepreneurship is one of the most important input in the economic development of a country. The entrepreneur acts as a trigger head to give spark to economic activities by his entrepreneurial decisions. He plays a pivotal role not only in the development of industrial sector of a country but also in the development of farm and service sector. The major roles played by an entrepreneur in the economic development of an economy is discussed in a systematic and orderly manner as follows.

1. **Promotes Capital Formation**

Entrepreneurs promote capital formation by mobilizing the idle savings of public. They employ their own as well as borrowed resources for setting up their enterprises. Such type of entrepreneurial activities lead to value addition and creation of wealth, which is very essential for the industrial and economic development of the country.

1. **Creates Large-Scale Employment Opportunities**

Entrepreneurs provide immediate large-scale employment to the unemployed which is a chronic problem of underdeveloped nations. With the setting up of more and more units by entrepreneurs, both on small and large-scale numerous job opportunities are created for others. As time passes, these enterprises grow, providing direct and indirect employment opportunities to many more. In this way, entrepreneurs play an effective role in reducing the problem of unemployment in the country which in turn clears the path towards economic development of the nation.

1. **Promotes Balanced Regional Development**

Entrepreneurs help to remove regional disparities through setting up of industries in less developed and backward areas. The growth of industries and business in these areas lead to a large number of public benefits like road transport, health, education, entertainment, etc. Setting up of more industries lead to more development of backward regions and thereby promotes balanced regional development.

1. **Reduces Concentration of Economic Power**

Economic power is the natural outcome of industrial and business activity. Industrial development normally lead to concentration of economic power in the hands of a few individuals which results in the growth of monopolies. In order to redress this problem a large number of entrepreneurs need to be developed, which will help reduce the concentration of economic power amongst the population.

1. **Wealth Creation and Distribution**

It stimulates equitable redistribution of wealth and income in the interest of the country to more people and geographic areas, thus giving benefit to larger sections of the society. Entrepreneurial activities also generate more activities and give a multiplier effect in the economy.

1. **Increasing Gross National Product and Per Capita Income**

Entrepreneurs are always on the look out for opportunities. They explore and exploit opportunities, encourage effective resource mobilization of capital and skill, bring in new products and services and develops markets for growth of the economy. In this way, they help increasing gross national product as well as per capita income of the people in a country. Increase in gross national product and per capita income of the people in a country, is a sign of economic growth.

1. **Improvement in the Standard of Living**

Increase in the standard of living of the people is a characteristic feature of economic development of the country. Entrepreneurs play a key role in increasing the standard of living of the people by adopting latest innovations in the production of wide variety of goods and services in large scale that too at a lower cost. This enables the people to avail better quality goods at lower prices which results in the improvement of their standard of living.

1. **Promotes Country's Export Trade**

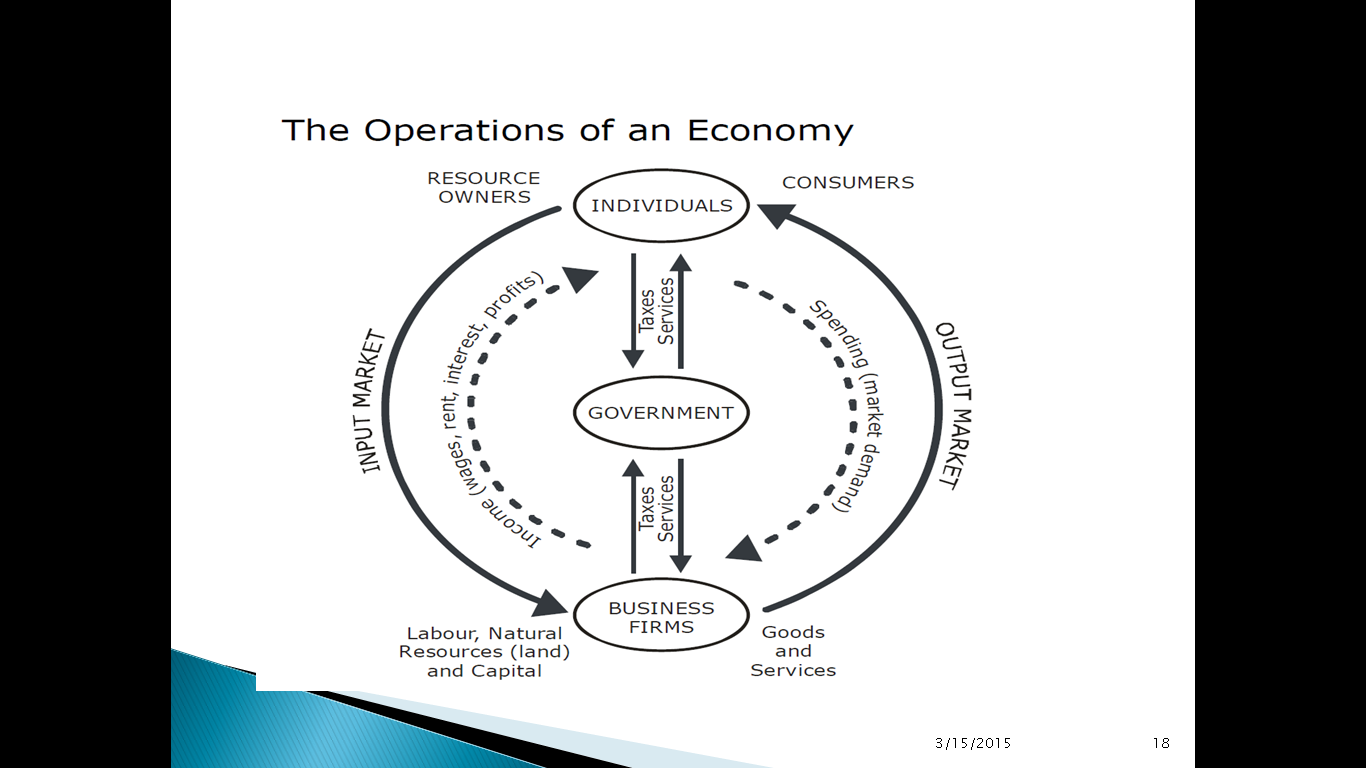
Entrepreneurs help in promoting a country's export-trade, which is an important ingredient of economic development. They produce goods and services in large scale for the purpose earning huge amount of foreign exchange from export in order to combat the import dues requirement. Hence import substitution and export promotion ensure economic independence and development.

1. **Induces Backward and Forward Linkages**

Entrepreneurs like to work in an environment of change and try to maximize profits by innovation. When an enterprise is established in accordance with the changing technology, it induces backward and forward linkages which stimulate the process of economic development in the country.

1. **Facilitates Overall Development**

Entrepreneurs act as catalytic agent for change which results in chain reaction. Once an enterprise is established, the process of industrialization is set in motion. This unit will generate demand for various types of units required by it and there will be so many other units which require the output of this unit. This leads to overall development of an area due to increase in demand and setting up of more and more units. In this way, the entrepreneurs multiply their entrepreneurial activities, thus creating an environment of enthusiasm and conveying an impetus for overall development of the area such as:

* Products and Services
* Employment
* Income (wages, salaries and profits)
* Taxes
* Disposable income
* Investment in productive assets
* National well-being
* Environmental sustainability
* Decentralization and diversification of business
* Promotion of technology
* Capital formation
* Promotion of an entrepreneurial culture

**The above flows show:**

* How the input market and the output market are joined together to coordinate and determine how resources are used in a basically private enterprise economy.
* The position of government, which is normally the custodian of the regulations and also referee.
* Wealth is made available to all when resources are processed into goods and services and successfully sold in the markets.

**1.4 Entrepreneurship, Creativity and Innovation**

**1.4.1 Creativity**

* Creativity is the ability to design, form, make or do something in a new or different way or it is the ability to come up with innovative solutions to needs/problems and to market them.
* An entrepreneur’s creativity is often the difference between success and failure in business.
* It often distinguishes high-growth or dynamic businesses from ordinary, average firms. To be creative, entrepreneurs need to keep their mind and eyes open to their environment.
* Creative ideas are needed anywhere there are problems with unknown solutions.
* In the business world, entrepreneurs use creativity to solve everyday problems, promote products and services, update products and services, and make use of limited resources.
* Some people believe that they are not creative. They may overlook situations in which they have odd ideas, or they may avoid sharing their ideas with others.
* People can develop their creative potential through learning and practice.

**1.4.2 Innovation**

All innovations begin with creative ideas. Creativity is the starting point for innovation. Innovation is the implementation of creative inspirations. Innovation is the process of bringing the best ideas in to reality. Innovation is the creation of new value. Innovation is the process that transforms new ideas into new value- turning an idea into value. You cannot innovate without creativity. Innovation is the process that combines ideas and knowledge in to new value. Innovation requires a fresh way of looking at things, an understanding of people, and an entrepreneurial willingness to take risks and to work hard. Most people resist change, so a key part of innovation is creating awareness on the minds of other people

**What Are Innovations Directed To? Create Value.**

The notion of value knows a perpetual migration movement towards a better fit between the business expectations and the evolution of the economic environment. Innovation, as any new product or service, leads to the creation of three values.

* The **first** one is the value of exchange, defined by the rareness of a product and the market. For a particular new service, consumers will have to pay a certain amount of money.
* The **second** type of value is the symbolic or perceived value. Through the purchasing process, consumers estimate or imagine in their mind that the innovation purchased will have certain characteristics. Consumers “appropriate” the product or service they buy, and through this process, they humanize it.
* The **third** and last one is the value of use. After having seen the economic value, and attributed to the product a perceived value, they will use it. This process will give birth to a new type of value, said “value of use”, different from the previous ones.