

ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

Concept of Entrepreneurship:

The concept of entrepreneurship has been around for a very long-time, but its resurgent popularity implies a sudden discovery. Richard Cantillon is credited with giving the concept of entrepreneurship a central role in Economics. According to him Entrepreneurs consciously make decisions about resource allocations.

They would always seek the best opportunities for using resources for the highest commercial yields. Adam Smith spoke of the enterpriser in his Wealth of Nations as an individual who undertook the formation of an organisation for commercial purposes.

He has ascribed to the entrepreneur the role of industrialist, but he also viewed entrepreneur as a person with unusual foresight who could recognise potential demand for goods and services. Another economist, Jean Baptiste Say described an entrepreneur as one who possessed certain arts and skills of creating new economic enterprises, yet a person who had exceptional insight into society's needs and was "able to fulfill them.

Concept of Entrepreneurship – Meaning and Definitions

The word entrepreneur is borrowed from the French language. It is derived from 'entreprendre' meaning to 'undertake'. Thus, entrepreneur is an 'undertaker' in the literal sense of the word. Its usage in French language can be traced much before the emergence of activities generally associated with entrepreneurs today.

Initially, the concept was used in the military sphere and later on it began to be applied to construction, engineering, and other related activities. It was only in the 18th century that the term entrepreneurship was applied almost exclusively to economic activities in general. Like many other terms, entrepreneurship as a concept remains rather vague.

Even today it is very difficult to define the term precisely. In the past two centuries, several scholars have attempted to define the concept by referring to the various ways in which it was employed. In the modern context, Richard Cantillon is supposed to have used the term entrepreneur for the first time in 1755.

He defined an entrepreneur as – 'an agent who buys means of production at certain prices in order to combine them into a product that he is going to sell at prices, which are uncertain.' He further goes on to say, 'the farmer pays out fixed contractual rate of rent and wages to the landlord and labourers. He, however, sets that product at prices that are not fixed. So do the merchants. This shows that entrepreneurship is essentially an ability to take risk in production and marketing.

According to Jean-Baptiste a French economist, entrepreneurship is essentially a function of co-ordination, organization and supervision. He is an agent who arranges for the assembly of production factors. In his own words, 'the entrepreneur is the economic agent who unites all means of production.' Thus, entrepreneurs are the ones who combine land, labour and capital for the purpose of production.

Entrepreneur, according to Joseph A. Schumpeter, is a person who foresees a potentially profitable opportunity and tries to exploit it. He is basically an innovator who introduces new combinations. He makes new things or makes things in a new way. His innovations of this kind may take such forms as introduction of new goods, introduction of new method of production, opening of a new market, conquest of a new source of material, etc.

He, however, makes a distinction between an inventor and an innovator. An inventor discovers and finds out new methods or techniques. Innovators make use of these inventions for commercial purposes. Thus, the innovator applies to practice the ideas conceived by the inventor.

Similarly, an innovator is very distinct from the routine manager. A manager more or less looks after day-to-day routine affairs of an organization. On the other hand, the innovator attempts to change the course of action to raise production and/or productivity. Thus, the entrepreneur is an innovator, endowed with an innate ability to innovate something new or do the same in a different manner.

Since, he charts a different course; there is no past experience to guide him in his chosen path. As such, there is an element of risk involved in this new approach of his. It is possible that an entrepreneur does not succeed in his willingness to assume the business risk and commit himself to that cause.

According to Frank H. Knight, entrepreneurs are a specialized group of persons who bear uncertainty. Uncertainty is some amount of risk which cannot be ensured against and is incalculable. So, an entrepreneur is the economic function that undertakes the responsibility of uncertainty.

According to McClelland, an entrepreneur is one who likes to take reasonable risk, wants to know how they can turnout as quickly as possible and has high degree of need for achievement. He is an individual responsible for the operation of a business including the choice of a project, the mobilization of necessary capital, decisions on product prices and quantities, the employment of labour, and expanding or reducing the productive facilities.

Entrepreneurship is the process of identifying opportunities in the market, mobilising the resources required to pursue these opportunities and investing the resources to exploit the opportunities for long term gains.

The activity of bringing together the factors of production (namely labour, land and capital) required for producing goods or services is called entrepreneurship.

Entrepreneurship is the inclination (attitude) of mind to take calculated risk with confidence to achieve a pre-determined business or individual objective.

The above definitions state that entrepreneurship is a goal-oriented process involving production or distribution of products or services. It may be undertaken by one person or by a group of persons.

Entrepreneurship refers to the general trend of setting up new enterprises in a society. Entrepreneurship is also the process of developing hidden potential in a person to become an entrepreneur. Traditionally, it was believed that entrepreneurs were born and not made, but

recent studies have proved that entrepreneurship can be developed through creating opportunities, extending facilities, allowing incentives and by proper training.

Hence, it can be believed that entrepreneurs are not only born, but they can be made. Entrepreneurship is not a matter of heritage only, it is with the individuals who respond to external opportunities.

Entrepreneurship – With Qualities and Pre-Qualities

Development economists are concerned with, among others, the study of human resources and entrepreneurship in particular. The study of role of human resources in economic development will include aspects not only like educational levels and productive skills acquired by the labor force (which includes all types of labor), but also the aspects like “social response to economic opportunity readiness to undergo economic change” on the part of the labor force.

It is in the context of later aspects, socio-cultural besides economic factors assume considerable importance. Entrepreneurship is a form of human resource and is as much influenced by socio-cultural factors as any other. Different views on the role of entrepreneurship and the theories, which purport to isolate and explain the factors which, determine the nature and performance of entrepreneurship is worth studying.

Development economists tell us that the level and rate of economic growth depend on natural resources, physical capital accumulation, human resource development and technological progress, provided the socio-cultural environment is favourable to growth. The behaviour pattern of people is also responsible for economic development.

Human qualities, which are conducive to economic development, are:

- (i) An interest in material well-being;
- (ii) An interest in techniques and innovations;
- (iii) An ability to look ahead and a willingness to take risk;
- (iv) Perseverance;
- (v) An ability to collaborate with other people and to observe certain rules.

The above pre-qualities are necessary for the reason that:

- (i) It provides a motive,
- (ii) Many different technical aids are used in modern industry and these are continuously changing,
- (iii) Installation of capital goods produces results only after considerable time and these results may sometimes prove disappointing.
- (iv) Whole process requires continuous and harmonious co-operation if it is of work.

Now the question arises is, can these human qualities necessary for economical development be acquired by the populations of developing economics and for such acquisition of human qualities what is the most appropriate socio-cultural environment? To understand this, the phases of industrialization will be helpful.

Till the Industrial Revolution in the late 18th century, which took place in Britain and later spread to other countries, the state of science and technology applied to industry and other economic activities was stagnant. Before reaching the present stage of modern capitalism with highly developed and sophisticated technology, western economies have passed through well defined, but by no means non-overlapping stages like primitive, tribal, ancient agricultural, medieval feudal and traditional capitalist.

In these earlier stages, neither economic organization nor technology was complex enough to require or engender entrepreneurship of a high order. No doubt in all these stages the functions performed by a peasant, an artisan, a feudal lord and a capitalist resembled the functions of their prototypes in the modern age.

The situation of the developing economy in the second half of the twentieth century is entirely different. The last two centuries have witnessed enormous progress in science and technology, which has come to remain as a decisive factor in the economic environment. Each developing economy is facing challenges from changes taking place within the country and also changes taking place elsewhere owing to its exposure through trading and other relations with other countries.

The internal challenges are the results of growing awareness on the part of the people of their economic backwardness. The challenges from outside are the results of its contact with countries that have progressed rapidly over the last 150 years. It is in this context, entrepreneurship assumes a prominent role.

The difference in setting and relative position between the present day and developing economies and the industrialized economies in their early stage of development makes the entrepreneurial role in the developing economies different from that of typical entrepreneur during the early periods of industrialization of industrially advanced countries.

The term entrepreneur first appeared in the French Language and was applied to leaders of military expeditions in the beginning of the sixteenth century. After 1700 the term was applied to other types of adventures, particularly to the fields of civil engineering projects like construction of roads, bridges, harbors and buildings. Later on the term was applied to the function of buying labor and material at uncertain prices and selling the resultant product at a contracted price.

Richard Cantillon, an Irishman living in France was the first person to use the term "entrepreneur" to refer economic activities. He defined an entrepreneur as a person who buys factor services at certain prices with a view to sell its product at uncertain prices in the future. He conceived of an entrepreneur as bearer of non-insurable risk.

That is entrepreneur carry on production and exchange of goods at some risk, facing the possibility of bankruptcy, when the demand for their products is depressed. He also distinguished between the owner and an entrepreneur and writes that the essential characteristics of entrepreneur were to take risk and create innovations.

J.B. Say, French Economist defines that an entrepreneur is the agent who unites all means of production and who finds in value of the products the re-establishment of the entire capital he employs, and the value of the wages, the interest, and the rent which he pays, as well as the profits belonging to himself. He may or may not supply capital but he must have judgement, perseverance and knowledge of the world of business. He must possess the art of superintendence and administration.

Development economists tell us that the level and rate of economic growth depend on natural resources, physical capital accumulation, human resources development and technological progress, provided the socio-cultural environment is favourable to growth. The behaviour pattern of people is also responsible for economic development human qualities, which are conducive to economic development.

Indian agriculture was very important because as many as 75% of its population depends on agricultural production. Slowly India has realized that industrial production is as important as agriculture. In the early stages, then government has dedicated to start giant industries in various fields by importing technology and manpower. By doing so India would have built strong industrial base and would have become a landmark in industrial revaluation. After a long spell, India has realized that small-scale industries sector will help in building Industrial India. Thus, Indian government started promoting the small-scale industries in all states by giving incentives and support. At this stage, a special class of people emerged, known as Entrepreneurs.

Starting a business always involves a certain degree of risk. The act of entrepreneurship is often allied with true uncertainty, particularly when it involves bringing something new to the world, whose market never exists. Although if the market exists, there is no guarantee that a particular new entrepreneur would be successful to develop his/her foothold in the existing market.

For example, in case of beverage industry, there is the monopoly of few organizations, such as Coca-Cola and Pepsi. These are dominant players in the global market. If a new entrepreneur decides to launch a new flavoured soft drink, there is no guarantee whether his/her venture would be successful or not.

Some of the management experts have defined entrepreneurship in the following ways:

According to Kuratko & Hodgetts, “Entrepreneurship is a dynamic process of vision, change, and creation. It requires an application of energy and passion towards the creation and implementation of new ideas and creative solutions. Essential ingredients include the willingness to take calculated risks in terms of time, equity, or career – the ability to formulate an effective venture team; the creative skill to Marshall needed resources – and fundamental skill of building solid business plan – and finally, the vision to recognize opportunity where others see chaos, contradiction, and Confusion.”

According to Frank H. Knight and Peter Drucker, “Entrepreneurship is about taking risks and the behavior of the entrepreneur reflects a kind of person who wishes to put his career and financial security on the line and take risks in the name of an idea, spending much time as well as capital on an uncertain venture.”

According to D.C. McClelland, “Entrepreneurship is doing things in a better way and decision-making under the condition of uncertainty.”

Benjamin Higgins has defined entrepreneurship as, “The function of foreseeing investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labor, arranging for the supply of raw materials, and selecting to managers for the day-to-day operation of the enterprise.”

Essien has defined entrepreneurship, “As the total of self-asserting attribute that enables a person to identify business opportunity together with the capacity to organize needed resources with which to profitability, taken advantage of such opportunities in the face of calculated risks and uncertainties.”

In the view of Harvard School, “Entrepreneurship consists of any earnest activity that starts, maintains, or develops a profit-oriented business in interaction with internal situation of the business and with the external situations such as economic, social, and political situations surrounding the business.”

Economist Joseph Schumpeter has given a significant contribution in understanding the concept of entrepreneurship. According to him, “An entrepreneur is a person who is willing and able to convert a new idea or invention into a successful innovation.” In the view of Schumpeter an entrepreneur employs “the gale of creative destruction.” Creative destruction can be defined as the process of creating new product, business model, or other business innovations by replacing the old ones.

Thus, new products and technologies developed by entrepreneurs over time make current products and technologies obsolete. For example, before the advent of mobile phones, pagers were very popular among people, but with the invention of mobile phones, pagers became obsolete.

Therefore, Schumpeter held the argument that creative destruction is the main factor behind economic growth and industry dynamism. He also held a view that entrepreneurship results not only in new industries, but also in new combinations of currently existing inputs.

Schumpeter exemplified this concept with the invention of a steam engine, which was used to develop a horseless carriage. Further, the horseless carriage was transformed into a car. This formation of car from steam engine was not the development of a new technology, but the application of existing technologies in a novel manner.

Thus, we can say that entrepreneurship is an act of bearing risks, bringing innovation, generating employment, and mobilizing resources.

Entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. Knowledge in entrepreneurship is a means to an end.

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