

THE CONCEPT OF AN ENTREPRENEUR

- DEFINITION, NATURE AND CHARACTERISTICS OF AN ENTREPRENEUR*
- WORKING PROFILE OF AN ENTREPRENEUR*
- TYPES OF ENTREPRENEUR*
- INTRAPRENEUR*
- FUNCTIONS OF AN ENTREPRENEUR*
- ENTREPRENEUR AND MANAGER---DISTINCTION*

DEFINITION, NATURE AND CHARACTERISTICS OF AN ENTREPRENEUR

- ***HISTORY:***

The word 'entrepreneur' is derived from the French word 'entreprendre' which means 'to undertake'. In the early 16th century the French men who organised and led military expeditions were referred to as 'entrepreneur'. After 1700, the term was applied to other types of adventures, mainly civil engineering like constructions of roads etc.

Planning Ahead — Chapter 6 Study Questions

- What is entrepreneurship?
- What is special about small businesses?
- How does one start a new venture?
- What resources support entrepreneurship and business development?

Study Question 1: What is entrepreneurship?

➤ Entrepreneurship

- Strategic thinking and risk-taking behavior that results in the creation of new opportunities for individuals and/or organizations.

➤ Entrepreneurs

- Risk-taking individuals who take actions to pursue opportunities and situations others may fail to recognize or may view as problems or threats.

Study Question 1: What is entrepreneurship?

➤ Entrepreneurs are ...

- Founders of businesses that become large-scale enterprises.
- People who:
 - Buy a local franchise outlet
 - Open a small retail shop
 - Operate a self-employed service business
- People who introduce a new product or operational change in an existing organization.

Study Question 1: What is entrepreneurship?

- Typical characteristics of entrepreneurs:
 - Internal locus of control
 - High energy level
 - High need for achievement
 - Tolerance for ambiguity
 - Self-confidence
 - Passion and action-orientation
 - Self-reliance and desire for independence
 - Flexibility

Figure 6.1 Personal traits and characteristics of entrepreneurs.



Study Question 1: What is entrepreneurship?

- Typical entrepreneurial backgrounds and experiences:
 - Parents were entrepreneurs or self-employed.
 - Families encouraged responsibility, initiative, and independence.
 - Have tried more than one business venture.
 - Have relevant personal or career experience.
 - Become entrepreneurs between 22 and 45 years of age.
 - Have strong interests in creative production and enterprise control.
 - Seek independence and sense of mastery.

Study Question 1: What is entrepreneurship?

- Reasons for women becoming entrepreneurs:
 - Being motivated by a new idea.
 - Doing for themselves what they were already doing for other employers.
 - Seeking a pathway to opportunity.

Study Question 1: What is entrepreneurship?

- Common myths about entrepreneurs:
 - Entrepreneurs are born, not made.
 - Entrepreneurs are gamblers.
 - Money is the key to entrepreneurial success.
 - You have to be young to be an entrepreneur.
 - You must have a degree in business to be an entrepreneur.

Study Question 2: What is special about small businesses?

➤ Small businesses ...

- Ones with 100 or fewer employees.
- Independently owned and operated.
- 50 percent of the private labour force works in small businesses.
- Are established by:
 - Starting a new business.
 - Buying an existing business.
 - Buying and running a franchise.

Study Question 2: What is special about small businesses?

- Entrepreneurship and the Internet ...
 - The Internet offers numerous entrepreneurial opportunities.
 - Online buying and selling
 - Dot-com businesses
 - Businesses are limited only by personal creativity.
 - Business-to-Business (B2B) ventures are possible.

Study Question 2: What is special about small businesses?

- International business entrepreneurship ...
 - Provides strategic opportunities for small businesses.
 - Creates exporting and importing opportunities.
 - Supported through appropriate governmental and non-governmental organizations.

Study Question 2: What is special about small businesses?

➤ Family businesses ...

- Owned and financially controlled by family members.
- Largest percentage of businesses worldwide.
- Can provide an ideal business situation.
- Problems unique to family businesses:
 - Family business feud
 - Succession problem

Study Question 2: What is special about small businesses?

- Reasons for small business failures:
 - Lack of experience
 - Lack of expertise
 - Lack of strategy and strategic leadership
 - Poor financial control
 - Growing too fast
 - Insufficient commitment
 - Ethical failure

Figure 6.2 Eight reasons why many small businesses fail.



Study Question 3: How does one start a new venture?

➤ Important issues in new venture creation:

- Does the entrepreneur have good ideas and the courage to give them a chance?
- Is the entrepreneur prepared to meet and master the test of strategy and competitive advantage?
- Can the entrepreneur identify a market niche that is being missed by other established firms?
- Can the entrepreneur identify a new market that has not yet been discovered by existing firms?
- Can the entrepreneur generate first-mover advantage by exploiting a niche or entering a market before competitors?

Study Question 3: How does one start a new venture?

➤ Questions that keep a new venture focused on its customers

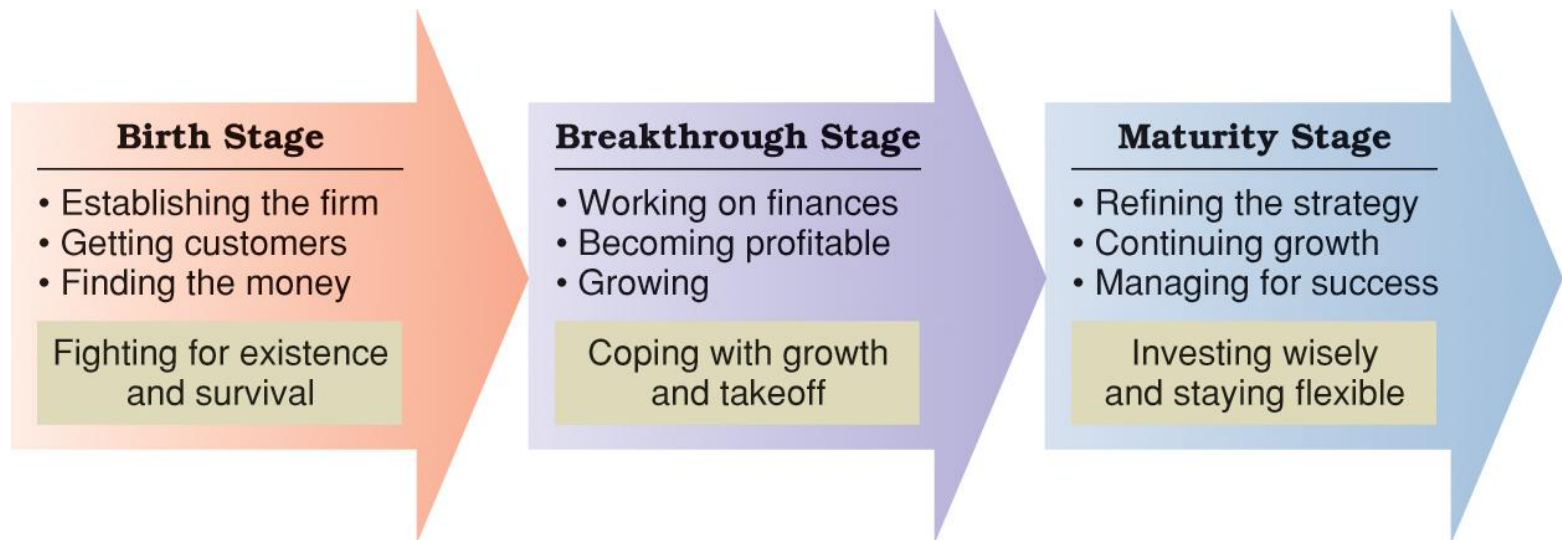
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- Who is your customer?
- How will you reach key customer market segments?
- What determines customer choices to buy or not buy your product/service?
- Why is your product/service a compelling choice for the customer?
- How will you price your product/service for the customer?
- How much does it cost to make and deliver your product/service?
- How much does it cost to attract a customer?
- How much does it cost to support and retain a customer?

Study Question 3: How does one start a new venture?

- Life cycle of entrepreneurial firms
 - Birth stage
 - Breakthrough stage
 - Maturity stage
- Each stage poses different managerial challenges and requires different managerial competencies.

Figure 6.3 Stages in the life cycle of an entrepreneurial firm.



Study Question 3: How does one start a new venture?

- Basic items that should be included in a business plan:
 - Executive summary
 - Industry analysis
 - Company description
 - Product and services description
 - Market description
 - Marketing strategy
 - Operations description
 - Staffing description
 - Financial projection
 - Capital needs
 - Milestones

Study Question 3: How does one start a new venture?

- Forms of legal ownership
 - Sole proprietorship
 - Partnership
 - General partnership
 - Limited partnership
 - Limited liability partnership
 - Corporation
 - Limited liability corporation (LLC)

Study Question 3: How does one start a new venture?

- Financing the new venture
 - Sources of outside financing
 - Debt financing
 - Equity financing
 - Equity financing alternatives
 - Venture capitalists
 - Initial public offerings
 - Angel investors

Study Question 4: What resources support entrepreneurship and business development?

- Promoting entrepreneurship in large enterprises
 - Intrapreneurship
 - Skunkworks
- Business incubators
- Small Business Development Centers

DEFINITION

- ***J.B.SAY:** Is another Frenchman, expanded Cantillon's ideas and conceptualised the entrepreneur as an organiser of the business firm, central to its distributive and productive functions.*
- ***E.E.HAGEN:** The entrepreneur is an economic man, who tries to maximise his profits by innovations.*
- ***GALBRAITH:** 'People are poor because they prefer in that way'. An entrepreneur must accept the challenge and should be willing hard to achieve something.*

CHARACTERISTICS OF AN ENTREPRENEUR

- 1. Calculated Risk-taker*
- 2. Innovator*
- 3. Organiser*
- 4. Creative*
- 5. Achievement Motivated*
- 6. Technically Competent*
- 7. Self-confident*
- 8. Socially Responsible*
- 9. Optimistic*
- 10. Equipped with Capability to drive*

- 11. Blessed with Mental Ability*
- 12. Human Relations Ability*
- 13. Communication Ability*
- 14. Decision-Making*
- 15. Business Planning*
- 16. A venture Capitalist*
- 17. Visionary*
- 18. Entrepreneur make significant differences*
- 19. Ability to Spot and Exploit Opportunities*
- 20. Courage to Face Adversities*
- 21. Leadership---An essential trait of the entrepreneur*



WHAT ENTREPRENEURS DO?

**Poverty
Alleviation**

**Taxes/Govt.
Revenues**

**Higher Productivity &
Innovations**

EMPLOYMENT & INCOME GENERATION

Wealth

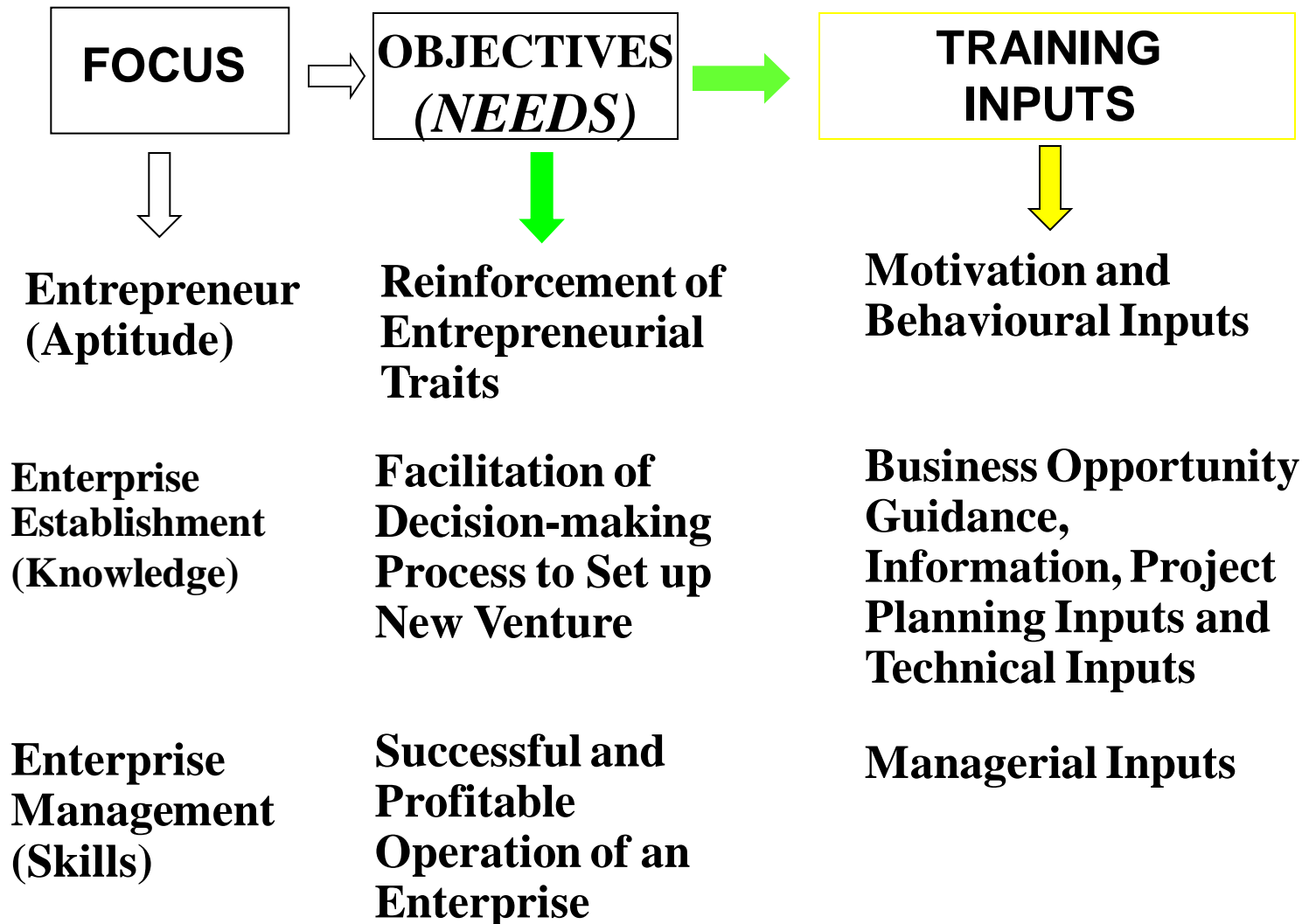
ENTERPRISES

**Output &
Exports**

ENTREPRENEURS



THE EDP INPUTS AND THEIR FOCUS



MANAGER VERSUS LEADER

Manager Characteristics

- *Administers*
- *A copy*
- *Maintain*
- *Focus on systems and structure*
- *Relies on control*
- *Short-range view*
- *Asks how and when*
- *Eye on the bottomline*
- *Imitates*
- *Accepts the status quo*
- *Classic good soldier*
- *Does things right*

Leader Characteristics

- *Innovates*
- *An original*
- *Develops*
- *Focuses on people*
- *Inspires trust*
- *Long-range perspective*
- *Asks what and why*
- *Eye on the horizon*
- *Originates*
- *Challenges the status quo*
- *Own person*
- *Does the right thing*

WORKING PROFILE OF ENTREPRENEUR

Characteristics

- *Self-confidence*
- *Drive*
- *Task-result oriented*
- *Risk-taker*
- *Mental Ability*
- *Leadership*

Traits

- *Confidence, Independence, Optimism, Individuality.*
- *Responsibility, Vigour, Initiative, persistence, Ambition.*
- *Need for achievement, Profit-oriented, Energy.*
- *Risk taking ability, Likes challenges.*
- *Overall intelligence(IQ), Creative thinking, Analytical thinking ability.*
- *Leadership behaviour, Gets alongwith others, Responsive to situations, Criticism.*

- *Human Relations Ability*
- *Originality*
- *Communication Ability*

- *Emotional stability, Healthy personal relations, Sociability, Tactfulness, Consideration.*
- *Innovative, Creative, Resourceful, knowledge.*
- *Perceptive, Foresight, Future oriented.*

TYPES OF ENTREPRENEUR

1. According to the Type of Business

- i. Business entrepreneur: Business entrepreneurs are those entrepreneurs who conceive the idea of a new product or service and then translate their ideas into reality.*
- ii. Trading entrepreneur: As the very name indicates trading entrepreneur is concerned with trading activities and not manufacturing.*
- iii. Industrial entrepreneur: As the very name indicates, an industrial entrepreneur is one who sets up an industrial unit.*
- iv. Corporate entrepreneur: Corporate entrepreneur is the one who plans, develops and manages a corporate body.*
- v. Agricultural entrepreneur: Agricultural entrepreneur is the one who is engaged in the agricultural activities.*

2. According to Motivation

- i. Pure entrepreneur: Pure entrepreneur is one who may or may not possess an aptitude for entrepreneurship but is tempted by the monetary rewards or profits to be earned from the business venture.*
- ii. Induced entrepreneur: Induced entrepreneur is attracted by the various incentives, subsidies and facilities offered by the government.*

3. According to the Use of Technology

- i. **Technical entrepreneur:** The strength of a technical entrepreneur is in his skill in production techniques. He concentrates more on production than on marketing.*
- ii. **Non-technical entrepreneur:** Unlike technical entrepreneur, non-technical entrepreneur is not concerned with the technical aspect of the product rather he spends more time in developing alternative strategies of the marketing and distribution to promote his business.*
- iii. **Professional entrepreneur:** Professional entrepreneur means an entrepreneur who is interested in floating a business but does not want to manage or operate it.*

4. According to stages of Development

- i. First generation entrepreneur: First generation entrepreneur are those entrepreneur who do not possess any entrepreneurial background.*
- ii. Second generation entrepreneur: Second generation entrepreneur are those entrepreneurs who inherit the family business firms and pass it from one generation to another.*
- iii. Classical entrepreneur: A classical entrepreneur is a stereotype entrepreneur whose aim is to maximize his economic returns at a level consistent with the survival of the unit but with or without an element of growth.*

5. Classification Given by Danhof

- i. **Innovating entrepreneur:** Innovative entrepreneurs are generally aggressive and possess the art of cleverly putting the attractive possibilities into practice.*
- ii. **Imitative entrepreneurs:** Imitative entrepreneurs are characterised by readiness to adopt successful innovations inaugurated by successful innovating entrepreneurs.*
- iii. **Fabian entrepreneur:** Fabian entrepreneurs are cautious and skeptical in experimenting change in their enterprises. Such entrepreneurs are shy, lazy and lethargic.*
- iv. **Drone entrepreneur:** Drone entrepreneurs are characterised by a refusal to adopt opportunities to make changes in production formulae even at the cost of severely reduced returns.*

6. According to Capital ownership

- i. Private entrepreneur: When an individual or a group of individuals set up an enterprise, arrange finance, bear the risk and adopt the latest techniques in the business with the intention to earn profits, he or the group is called as private entrepreneur/entrepreneurs.*
- ii. State entrepreneur: As the name indicates, state entrepreneur means the trading or industrial venture undertaken by the state or the government itself.*
- iii. Joint entrepreneur: Joint entrepreneur means the combination of private entrepreneur and state entrepreneur who join hands.*

7 According to Gender and Age

- i. Man entrepreneur*
- ii. Woman entrepreneur*
- iii. Young entrepreneur*
- iv. Old entrepreneur*
- v. Middle-aged entrepreneur*

8. According to Area

- i. Urban entrepreneur*
- ii. Rural entrepreneur*

9. According to Scale

- i. Large scale industry entrepreneur*
- ii. Medium scale industry entrepreneur*
- iii. Small scale industry entrepreneur*
- iv. Tiny industry entrepreneur*

INTRAPRENEUR

The term 'intrapreneur' was coined in the United States of America in the late seventies.

Gifford Pinchot defined intrapreneurs as the persons who resigned from their well paid executive positions to launch their own ventures. Gifford devised the way by which such executives could be retained in the industry and their entrepreneurial urge was also satisfied by their bosses.

So a system was devised whereby such executives would operate as entrepreneurs with full independence and autonomy

*but with
in the organisation.*

Difference between entrepreneur and intrapreneur

- 1. An entrepreneur is an independence person who starts his venture and bears full risk of his failure and enjoys the fruit of his success whereas intrapreneur is partially independent and is sponsored by the corporation in which he is working. He is also not liable to bear the losses in case of his failure.*
- 2. An entrepreneur raises the finance from various sources and also guarantees their return whereas an intrapreneur does not own responsibility to raise the capital or to return it.*
- 3. An entrepreneur has no relation with any organisation whereas an intrapreneur operates within the organisation where he is working.*

FUNCTIONS OF AN ENTREPRENEUR

There has been a great deal of confusion and contradiction in literature on the functions of an entrepreneur.

FUNCTIONS

- 1. Innovations: J. Schumpeter has made substantial contribution to the literature of entrepreneurship. The process of innovations may be in the form of:*
 - a) Introduction of a new product.*
 - b) Use of new methods of production.*
 - c) Opening of a new market.*
 - d) The conquest of new source of supply of raw material.*
 - e) A new form of organisation.*

2. Risk-taking: *Richard Cantillon states that entrepreneur is an agent who buys means of production at certain prices and sells them at uncertain prices.*

The entrepreneur performs the function of reducing uncertainty in his plan of investment and expansion of the enterprise.

J.B. Say also stresses risk-taking as the specific function of an entrepreneur.

3. Decision Maker: *Entrepreneur as a decision maker describes the following functions of an entrepreneur.*

- a) The determination of objectives of an enterprise and the change of those objectives as conditions required or made advantageous,*
- b) The development of an organisation including efficient relations with subordinates and all employees,*

c) Securing adequate financial resources, the relations with existing and potential

Investors,

d) The acquisition of efficient technological equipment and the revision of it as new machinery appears,

e) The development of a market for the products and the devising of new products to meet or anticipate consumer's demand,

f) The maintenance of good relations with public authorities and with society at large.

4. Organisation and Management: Marshall recognised organisation and management of the enterprise as the important functions of an entrepreneur.

When the organisation grows bigger, the entrepreneur effectively delegates authority and finds responsibility at various levels of management. The network of decision making becomes more complex.

The functions of organisation and management includes:

- a) Planning of an enterprise,*
- b) Co-ordination, administration and control,*
- c) Routine type of supervision.*

DISTINCTION BETWEEN AN ENTREPRENEUR AND A MANAGER

ENTREPRENEURS

- 1. Status:** An entrepreneur is the owner of his enterprise. He makes his own investment and owns his business.*
- 2. Target:** The main target of an entrepreneur is to start his venture by setting up as a sole-trader or firm or a company.*

MANAGERS

- 1. Status:** A manager is just an employee in the enterprise which is owned and run by entrepreneur.*
- 2. Target:** The main goal or motive of a manager is give his services to an enterprise set up by someone else i.e. an entrepreneur.*

ENTREPRENEURS

3. *Decision making:* *All of the policies and strategic decisions, like those comprising of expansion diversification, take-over etc are taken by the entrepreneur.*

4. *Rectification of wrong decisions:* *The wrong decisions taken by the entrepreneur may not be rectifiable and may result in losses or even closure of the unit.*

MANAGERS

3. *Decision making:* *While all those managerial, operational decisions which would have impact on the short-and medium-term results are taken by the managers.*

4. *Rectification of wrong decisions:* *Whereas the wrong decisions taken by the managers can be amended and rectified by the entrepreneur.*

ENTREPRENEURS

5. Innovations: *An entrepreneur innovates and exploits his innovation commercially.*

6. Risk bearing: *An entrepreneur being the owner of his unit undertakes all risks and uncertainty of running his enterprise.*

7. Skills: *The skill expected from an entrepreneur is in the form of creativity, innovation, desire for high achievement, intuition etc.*

MANAGERS

5. Innovations: *A manager is merely an officer or an executive who is appointed for the promotion of the unit.*

6. Risk bearing: *A manager doesn't bear any risk because he is paid fixed salary.*

7. Skills: *Whereas manager depends on public dealing abilities and conceptual abilities.*

ENTREPRENEURS

8. Qualification: *An entrepreneur doesn't need to have distinct degree from a reputed university.*

9. Rewards: *The reward of an entrepreneur is the profit earned by him.*

MANAGERS

8. Qualification: *On the other hand, a manager now a days need to possess degree in the stream of management theory and practice.*

9. Rewards: *A manager gets his monthly salary as his reward for the services rendered by him.*

TIPS TO BECOME A SUCCESSFUL ENTREPRENEUR

- 1. Acquire sufficient and all-round knowledge about an enterprise you intend to start.*
- 2. Be conservative in calculating income and lavish in calculating expenditure.*
- 3. Don't expect quick and easy returns from your venture.*
- 4. Be prepared for delegation of work when needed.*
- 5. Take moderate risks; neither too high nor too low.*
- 6. Plan systematically and march ahead step by step according to the plan to achieve your goal.*
- 7. Time management is necessary to maximum utilisation of your resources.*
- 8. Collect maximum information about your competitor on continuous basis.*
- 9. Don't avoid or run away from problems.*
- 10. Take the help of experts and experienced persons or entrepreneur, when in doubt.*

Conclusion

An entrepreneur performs various type of functions. Growth of his enterprise depends upon the way, he performs various functions like innovation, risk-taking, decision-making, organisation and management.