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On  
**Entrepreneurship and Management & Smart Technology**  
On  
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6<sup>th</sup> Revised Edition

# ENTREPRENEURSHIP DEVELOPMENT

E. Gordon  
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# ENTREPRENEURSHIP DEVELOPMENT

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## **Preface to the Sixth Revised Edition**

The ecosystem, at present, is favourable in India for entrepreneurial development. The initiatives taken by the Government of India and State Governments, the growing number of funding agencies such as angel investors, venture capitalists, NBFCs, Fintech start-ups, etc., the rise in number of accelerators and incubators, and the attitude of family and community have created a conducive ecosystem for the growth of sustainable business ventures. Knowledge about the changes in the ecosystem, opportunities and challenges in the globalised business becomes imperative for youth and students who wish to pursue entrepreneurship as their career. The present edition provides comprehensive knowledge about entrepreneurship, various aspects of starting a new industrial units and make them viable and sustainable.

This present edition includes a new chapter on “Start-ups”.

This book is organised into 19 chapters and incorporates current trends and statistics. We hope that this revised edition will be an invaluable guide to students, teachers and those who want to become entrepreneurs.

Critical comments and constructive suggestions for the improvement of this book are most welcome.

**E. Gordon  
K. Natarajan**



## Preface to the First Edition

Entrepreneurs have to play a prominent role with the advent of the industrial revolution and the consequent technological developments in the developing countries where the process of economic liberalisation is in full swing. In India, the Government is determined to achieve 8% economic growth rate in the Tenth Plan which is in the offing. Unfortunately, the growth rate in recent years has been hampered by the ever increasing problems of unemployment, poverty and regional imbalances. These economic ills can be cured to a large extent only when the educated young come forward to opt for entrepreneurship profession. Having felt the need to create and develop qualities of leadership and stimulate the hidden talents of entrepreneurship embedded in the minds of youth, almost all universities have incorporated a component relating to entrepreneurship in their undergraduate as well as postgraduate programmes.

No doubt, entrepreneurs are specially talented persons capable of identifying projects, marshalling resources, innovating ideas, assuming risks and establishing ventures. In these days of highly uncertain business environment and highly sophisticated information technology, prospective entrepreneurs have to be inspired and motivated to take up some self-employment ventures and thereby, create employment opportunities for many people. In addition, the changing policies are so demanding that they make a prospective entrepreneur's task more difficult than that of a man, who, over the years, has got quite accustomed to the innumerable problems and pitfalls of running a business or industry.

The main objective of the present work entitled "**ENTREPRENEURSHIP DEVELOPMENT**" is to serve as an invaluable guide to all those who want to enter into the entrepreneurial arena. It is also designed as a textbook to all those who pursue higher education with a course on 'Entrepreneurship Development.'

The salient features of this book are:

- Presentation of various aspects of entrepreneurship in a simple language and lucid style.
- Logical arrangement of chapters in an adequate manner.
- Exhaustive coverage of project report and its appraisal comprehensively and critically.
- Critical analysis of problems faced by small-scale as well as women entrepreneurs.

- Provision of concise information on technical know-how to start a new enterprise.
- Inclusion of both objective and descriptive type questions at the end of each chapter.

We express our sincere thanks to Shri S. Kumaravelkani, B.Com., ACA and Mr. T. Dhanasekaran, MBA, B.L., Regional Manager, TIIC for their valuable guidance in preparing this book. Our publishers deserve special thanks for their wholehearted support and cooperation in bringing out this edition elegantly and in time.

Critical comments and constructive suggestions for the improvement of this book are most welcome and will be greatly appreciated.

We wish to express our thanks to Mr. K. Sivadasan, Area Manager and members of Himalaya Publishing House Pvt. Ltd. for their active support and wholehearted cooperation.

**E. Gordon  
K. Natarajan**

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## CHAPTER

# 1

# ENTREPRENEUR

## CONTENTS

- ❖ Definitions
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All over the globe, the dream of growing number of people is to own and operate their own businesses. The study conducted by the Global Entrepreneur Motor Monitor found that, in USA, 11.3% of the adult population, roughly, one in nine people is working to start a business. The surge in entrepreneurial activity is found in all countries and India is no exception.

The entrepreneurial spirit is the most significant one in the recent business history. The new entrepreneurs are reshaping the business environment. Their businesses have introduced innovative products and services, created new jobs and opened new markets. The rate of entrepreneurial activity determines the growth of a nation.

### Who are the Entrepreneurs?

The word 'Entrepreneur' is derived from the French word '*Entreprendre*' meaning to undertake. In fact, in the 16th century, the Frenchmen who undertook military expeditions were referred to as 'Entrepreneurs.' Later on, in the 18th century, this term got associated with persons who started their own enterprises. Richard Cantillon, an Irish man living in France, was the first economist who introduced the term 'entrepreneur' referring to the risk-taking function of establishing a new venture.

## Definitions

Various experts have defined the term entrepreneur in different words. Some of the definitions are as follows:

According to **Collins Cobuild English Language Dictionary, 1987**, “An entrepreneur is a person who sets up business deals in order to make a profit.”

According to **J.B. Say**, “An entrepreneur is the economic agent who unites all means of production”...

**Richard Cantillon** says, “All persons engaged in economic activity are entrepreneurs.”

In the words of **Quesnay**, “A rich farmer is an entrepreneur who manages and makes his business profitable by his intelligence and wealth.”

**J.A. Schumpeter** is of the view that, “A person who introduces innovative changes is an entrepreneur and he is an integral part of economic growth.”

According to **Webster**, “Entrepreneur is one who assumes risk and management of business.”

In the words of **Walker**, “True entrepreneur is one who is endowed with more than average capacities in the risk of organising and co-ordinating various factors of production.”

**Peter Drucker** says, “Entrepreneur is one who always searches for change, responds to it and exploits it as an opportunity. Innovation is a specific tool of entrepreneurs, the means by which they exploit change as an opportunity for different business or service.”

**Dewing** has rightly put it as follows: “The function of entrepreneur is one that promotes ideas into business.”

Thus, an entrepreneur is always action-oriented. He has the ability to visualise the necessary steps involved from idea generation to its actualisation. He is both a thinker and doer; planner and worker. He accepts risk and manages it. All the above definitions portray an entrepreneur as an initiator of action, stimulator of social economic change and a harnesser of resources.

## Characteristics of an Entrepreneur

Anybody can become an entrepreneur provided he has got a certain set of behavioural traits and mental aptitude. His success depends more on hard work than good luck. He must be a DOER and not a DREAMER. The success of an entrepreneur largely depends on his intelligence, imagination, capacity to innovate and his ability to turn visions into realities. It is not necessary that he should possess a professor's intelligence, a prophet's foreseeing capacity, a salesman's persuasiveness, a banker's financial talent, a politician's power, a filmstar's magnetic personality and so on. The only capacity, very essential to become an entrepreneur is the willingness to work hard. There are certain characteristic features which make an entrepreneur successful in his venture. They have been briefly discussed hereunder:

**1. Hard Work:** A successful entrepreneur is one who is willing to work hard from the very beginning of his enterprise. An entrepreneur with his tenacity and hard work and pervasive perseverance can revive his business even from the verge of collapse.

**2. Business Acumen and Sincerity:** Business acumen stands for shrewdness and ability. Again, the success of an enterprise depends upon the sincerity of the people behind the enterprise. If a person is sincere about his venture, he will move heaven and earth to make it a success.

**3. Prudence:** A successful entrepreneur must be prudent in all his dealings. He should have the ability to work out the details of the venture from all angles, assess the favourable factors and pitfalls and take suitable measures to overcome the pitfalls.

**4. Achievement Motivation:** The achievement motivation is the most important characteristic of an entrepreneur since all other characteristics emanate from this motivation. He must have a strong desire to achieve high goals in business. In fact, this achievement motivation helps him to surmount the obstacles, suppress anxieties, repair misfortunes and devise plans for success.

**5. Self-reliance and Independence:** A successful entrepreneur wants to follow his own routine policies and procedures and he does not like to be guided by others. He is found to be self-reliant by acting as his own master and making him responsible for all his decisions. He does not like to work for others.

**6. Highly Optimistic:** Successful entrepreneur is always optimistic about his future and he is never disturbed by the present problems. He always expects a favourable situation for his business and hence, he is able to run his business successfully in the midst of temporary hurdles. He does not allow the past to obsess him.

**7. Keen Foresight:** An entrepreneur must have keen foresight to predict the future business environment. He has the capacity to visualise the likely changes to take place in the market, customer's attitude, technological developments, Government's policy, etc., and take timely actions accordingly.

**8. Planning and Organising Ability:** An entrepreneur is a firm believer in planning and systematic work. Above all, he must have the ability to bring together all scattered resources required for starting a new venture.

**9. Innovativeness:** When all is said and done, innovation becomes a different task. One should be always innovative to satisfy the varying demands of customers. For this purpose, the entrepreneur should initiate research and innovative activities to produce new goods and services. It is a never ending process.

**10. Risk Taking:** An entrepreneur is not a gambler and hence, he should not assume high risk. However, he must love a moderate risk situation, high enough to be exciting, but with a fairly reasonable chance to win.

**11. High Level of Energy:** Entrepreneurs are more energetic than the average person. That energy may be a critical factor, given the incredible effort required to start a company. Long hours and hardwork are the rule rather than the exception.

**12. Maintenance of Public Relations:** The extent of maintenance of public relations or human relations has a vital role to play on the success or failure of an entrepreneur. A successful entrepreneur must have cordial relations with his customers to gain their continued patronage and support. He must also maintain good relations with his employees with a view to motivating them to higher levels of

efficiency. Similarly, he must maintain good relations with his suppliers, creditors and the community at large so that he may succeed in his venture.

**13. Communication Skill:** Communication skill is the secret of the success of most entrepreneurs. Good communication skill enables them to put their points across effectively and with clarity and thereby, helps them to win customers.

## Functions of an Entrepreneur

An entrepreneur is an agent who buys various factors of production with a view to combining them into a finished product which can be sold in the market. While doing so, he has to perform the following basic functions:

1. Risk Assumption Function
2. Business Decision Making Function
3. Managerial Function
4. Function of Innovation

**1. Risk Assumption Function:** An entrepreneur has to necessarily act as a 'risk-bearing' agent of production since he has to bear a greater amount of uncertainties in business. The term uncertainty refers to more than an ordinary risk. Ordinary risk can be measured and insured whereas, risk due to uncertainty cannot be insured and it is incalculable also. For instance, risks due to the possibility of changes in the taste of customers, change in fashion and technique of production, new inventions, etc., cannot be ensured. But, an entrepreneur has to undertake and face such uncertainties. The entrepreneur assumes this risk and tries to reduce these uncertainties by his initiative, skill and admirable ability.

**2. Decision Making Function:** From the very inception of the business till its development, an entrepreneur has to take decisions at various stages. He has to decide the nature and type of goods to be produced, the size of the business, its location, technique of production, etc. A successful entrepreneur is one who takes sound decisions at the appropriate time so that his business may succeed.

**3. Managerial Function:** An entrepreneur has to perform the managerial functions also. Managerial functions are nothing but functions of coordination, organisation and supervision. An entrepreneur is one who combines the land of one, the labour of another and the capital of yet another, and thus, produces a product. While undertaking an enterprise, he has to perform all managerial functions starting with planning and ending with controlling.

**4. Function of Innovation:** Innovation is an important function of an entrepreneur. In this context, one should know the distinction between an investor and an innovator. The person who discovers new methods, new materials and machines is called an inventor. But, the person who utilises these inventions so as to make new combinations of products is called an innovator. Innovation is a never-ending process and in fact it is an ongoing function. Thus, an entrepreneur has to be always on the lookout to introduce a new product or a new production technology or open a new market hitherto untapped or discover a new source of supply of new material. Innovators are always successful in their ventures.

Innovation involves introducing something new. It is not a simple imitation, but an addition however slight it may be.

## Four Types of Innovation

### Incremental Innovation

This builds on an existing idea or model, product, process or service but innovates a bit on it. The effect is to lower the cost and increase the supply or availability. Generic bulk drugs made in India using a route different from the original is an example.

### Evolutionary Innovation

Here, the innovator builds on what is known and creates significant new value. It is the next step to incremental. The innovation driver is market leadership. Tata Nano exemplifies this well.

### Breakthrough Innovation

This involves the creation of a radically new product, service, process or business model. Breakthroughs or novel products that are derived from experimental innovation.

The electric car Reva exemplifies this. The innovation driver here is new technologies that arise from existing information, methods and tools.

### Experimental Innovation

It is close or identical to invention. The driver here is the next practice.

— Kiran Mazumdar of Biocon Ltd.

### Frugal Innovation

The ability to generate more business and social value by significantly reducing the use of scarce resources is known as frugal innovation. Resource scarcity can be a catalyst for such innovation. At the current rate of consumption, it is estimated that by 2030 we would require two planets to supply the resources we need and absorb the wastage. Hence there is an urgent need for innovation to reduce the use of scarce resources.

An entrepreneur not only conceives the business idea but also combines various factors of production such as — men, money, machines, and methods so as to get finished products which can be sold in the market. While doing so, he performs the following functions:

- 1. Idea Generation and Choosing the Right Time to Business:** Idea generation implies product selection and project identification. Ideas can be generated through various sources such as project profiles, industries, potential surveys, new product development in research laboratories, export statistics, probability studies of selected industries, trade fairs and exhibitions, etc. It is the function of an entrepreneur to generate as many ideas as he can from various sources for the purpose of selecting the right line of business which can be converted into a viable business venture.

2. **Determination of Business Objectives:** Determination of the objectives of the proposed business is the next function. An entrepreneur should decide the nature and type of business he proposes to start. This implies whether the enterprises belong to a manufacturing unit, service-oriented one or trading. An entrepreneur must be very clear about the nature of business.
3. **Market Research:** The success of any business depends upon its ability to market its products/services. Hence, an entrepreneur should undertake market research to estimate the demand and supply for the products, size of customers, future changes in the volume and patterns of supply and demand for the product, etc.
4. **Determination of Form of Organisation:** The entrepreneur has to decide the form of ownership/organisation for its new enterprise. The main forms of organisation are sole proprietorship, partnership and joint stock company. An entrepreneur has to decide the organisation based on one's capacity to take decisions and bear the risk, the nature of business, volume of investment, quality of human resource, size and area of operation.
5. **Promotional Formalities:** Completion of promotional formalities such as obtaining registration certificate, clearances, submitting application for term and working capital loan and the like are the next functions of an entrepreneur.
6. **Raising of Funds:** Finance is the most important prerequisite to start a business. An entrepreneur has to raise funds for purchase of fixed capital as well as working capital. He must be aware of its various sources of funds, government schemes and type of assistance provided by financial institutions.
7. **Procurement of Machinery:** Procurement of machinery constitutes an important function of an entrepreneur. He should be careful in the selection and purchase of equipment and machinery.
8. **Procurement of Raw Materials:** An entrepreneur has to ensure timely and adequate availability of raw materials for continuous production. He must identify the cheap and regular source of supply of raw materials.
9. **Recruitment of Staff:** Recruitment of persons of various cadres such as skilled and unskilled workers, supervisors, etc., and giving necessary training are the other functions of an entrepreneur.
10. **Implementation of the Project:** The project identified is to be implemented in a time-bound manner by the entrepreneur. The function of the entrepreneur is to accomplish all activities from conception stage to commissioning stage in accordance with the schedule successfully.

## Entrepreneur vs. Manager

Many people are of the view that the terms entrepreneur and manager means the same. It is a wrong notion since one can find a lot of differences between these two as given below:

Entrepreneur	Manager
<p><b>1. Owner:</b> An entrepreneur is the owner of the enterprise which he establishes himself.</p> <p><b>2. Profit:</b> The reward for an entrepreneur is profit which is highly uncertain.</p> <p><b>3. Full risk bearing:</b> As a owner, the entrepreneur has to bear all risks and uncertainties involved in running the business.</p> <p><b>4. All functions:</b> An entrepreneur has to perform many functions in order to run the enterprise successfully.</p> <p><b>5. Innovator:</b> An entrepreneur mainly acts as an innovator and prepares plans for execution.</p>	<p><b>1. Servant:</b> A manager is acting in the capacity of a servant in the enterprise.</p> <p><b>2. Salary:</b> The reward for a manager is salary and his salary is certain and fixed.</p> <p><b>3. No risk bearing:</b> As a servant, the manager need not bear any risk involved in the enterprise.</p> <p><b>4. Managerial functions only:</b> A manager renders only the managerial services in an enterprise.</p> <p><b>5. Executor:</b> A manager mainly acts as an executor of plans prepared by the entrepreneur.</p>

## Intrapreneur/Corporate Entrepreneur

In recent times, a new brand of corporate entrepreneurs called “intrapreneurs” has come into picture. Since they emerge within the frontiers of an existing enterprise, they are called intrapreneurs. “In” refers to “within.” In big organisations, the top executives with entrepreneurial talents are encouraged to generate new ideas and then convert them into products through research and development carried out within the organisation itself. If the talent inside an organisation is recognised the entrepreneur could avoid stagnation and decline in his enterprise.

This concept of intrapreneurship has gained much popularity in developed countries like America. If the managements are not receptive to their new ideas, they tend to leave their parent organisation and start ventures of their own. When Steve Wozniak could not get his dream of making a small computer fulfilled at Hewlett Packard, he left that popular company. He then teamed up with Steve Jobs to form Apple Computers which has subsequently become a prestigious organisation. It is found that many of such intrapreneurs have become exceedingly successful in their ventures to the extent of even causing a threat to their parent organisation. Generally, intrapreneurs breed new and innovative ideas to the entrepreneurs.

Companies should provide intrapreneurs with adequate financial resources and freedom so that their ideas can be developed. Hence, selected top executives should be given a status within the organisation similar to that of an entrepreneur in the society. What drives talent within an organisation is not monetary gain, but, a deep desire of personal achievement. Thus, an intrapreneur is an individual, who performs all the duties of an entrepreneur, but within an established organisation.

## Characteristics

**Understand the Environment:** An intrapreneur needs to understand all aspects of the environment. To establish successful intrapreneurial venture, the individuals must be creative and have broad understanding of the internal and external environments of the corporation.

**Visionary:** The person who is going to establish new entrepreneurial venture must be a visionary leader — a person who has great dreams. The intrapreneur must have a dream and overcome all the obstacles in achieving it.

**Flexible and Create Management Options:** An intrapreneur must be open to and even encourages change. By flexibility, he can create something new in the organisational structure.

**Encourage Teamwork:** The intrapreneur must possess the ability to encourage teamwork and use a multidisciplined approach.

**Encourage Open Discussion:** Open discussion must be encouraged in order to develop a good team for creating something new. A successful new intrapreneurial venture can be formed only when the team involved feels the freedom to disagree and to agree to an idea, in an effort to reach the best solution. The degree of openness among the team depends on the degree of openness of the intrapreneur.

**Build a Coalition of Supporters:** Openness also leads to the establishment of a strong coalition of supporters. The intrapreneur must encourage each team member, particularly during difficult times. This encouragement is important as it helps to establish a new intrapreneurial venture.

**Persistence:** Frustration and obstacles will occur throughout the establishment of a new venture. Only through the intrapreneur's persistence, will a new venture be created successfully.

The differences that exist between these two types of business leaders are given below:

Entrepreneur	Intrapreneur
<p><b>1. Independent:</b> An entrepreneur is an independent person in his business operations.</p> <p><b>2. Need not be highly educated:</b> It is not necessary that an entrepreneur should have a high education. He can learn everything by experience provided he has the basic qualities of a successful entrepreneur.</p> <p><b>3. Fund raising:</b> An entrepreneur himself raises funds necessary for starting and establishing his enterprise.</p> <p><b>4. Risk bearing:</b> An entrepreneur has to bear all the risks involved in the business by himself.</p>	<p><b>1. Dependent:</b> On the other hand, an intrapreneur is completely depending on the entrepreneur for everything in the organisation. He cannot take any decision by himself.</p> <p><b>2. Highly educated:</b> An intrapreneur enters into an existing organisation with a high education and qualification. He is indeed a business specialist in the chosen field.</p> <p><b>3. No fund raising:</b> An intrapreneur is completely free from the botheration of raising funds.</p> <p><b>4. No risk bearing:</b> An intrapreneur need not bear any risk involved in the business.</p>

**5. Routine work:** An entrepreneur is more concerned with doing routine work and sometimes he may not know the important details of his own business.

**6. Operation from outside:** An entrepreneur always operates from outside. The owner is different and the enterprise he owns is different.

**7. Strong authoritarian:** Generally, an entrepreneur operates with a strong authoritarian backup.

**5. Specialist:** An intrapreneur acts as a specialist in his chosen field and serves as an outside professional.

**6. Operation from inside:** But, an intrapreneur operates from within the organisation itself. He is a part and parcel of the organisation.

**7. Less authoritarian:** On the contrary, intrapreneur is less authoritarian. He is more “adaptable” in the organisation.

## Copreneurs

Copreneurs are married couple who share ownership, commitment and responsibility for a business. The concept of married couples working together in a business is as old as the family itself. In recent times, there is a steady rise in the number of copreneurial ventures all over the world. It has been proved that marital satisfaction increases when both husband and wife are emotionally supportive of each other's career.

## Types of Entrepreneurs

There are various ways by which entrepreneurs have been classified. Different authorities have classified entrepreneurs differently at different times. The most popular classification has been given by **Clarence Danhof** on the basis of his study of the American agriculture. According to him, entrepreneurs may be classified as follows:

1. Innovative Entrepreneur
2. Adoptive or Imitative Entrepreneur
3. Fabian Entrepreneur
4. Drone Entrepreneur

**1. Innovative Entrepreneur:** An innovative entrepreneur is one who is able to foresee potentially viable and profitable opportunities through innovation. This type of entrepreneur is highly motivated and talented and “innovation” is his key function. According to **Peter F. Drucker**, an innovating entrepreneur is one “who always searches for change, responds to it, and exploits it as an opportunity.” He creates new values or increases the value of what already exists.

An innovative entrepreneur may exhibit his talents of innovation in any one of the following forms:

- Introduction of a new product or introduction of a new quality of an existing product.
- Introduction of a new method of production.
- Opening of a new market.

- Discovery of a new source of supply of raw materials or semi-finished goods.
- Reorganisation of the enterprise so as to achieve monopoly or to break up the monopoly position.

One should not confuse the terms 'innovator' and 'inventor' at this juncture. An entrepreneur is not an inventor. An inventor discovers new methods and new materials. But an innovator commercialises these inventions to produce new and better goods. Thus, an innovating entrepreneur implements the inventor's ideas.

**2. Adoptive or Imitative Entrepreneur:** Imitative entrepreneur is one who is ready to adopt the successful innovations already introduced by innovating entrepreneurs. In other words, an imitative entrepreneur does not innovate anything by himself, but he only imitates techniques and technologies innovated by others. He follows the innovators after carefully observing the extent to which their innovation has been successful. For example, the Cochin Shipyard has been constructed by using the innovative technology provided by the Mitsubishi Heavy Industries Ltd., of Japan.

This type of entrepreneur has a vital role to play in developing countries. Innovative entrepreneurs are scarce in developing countries. To add fuel to fire, there is also a problem of scarcity of capital and skilled labour in these countries, which hinder innovative entrepreneurship. In this context, the imitative entrepreneur fills up this gap admirably by simply imitating the technology, skill and technique already developed by innovative entrepreneurs in developed countries. Hence, developing countries need imitators who are responsible for the development of their countries with the limited resources available in these countries.

**3. Fabian Entrepreneur:** Fabian entrepreneur is one who adopts a great caution and scepticism in introducing any change in the business. Normally, he has neither the will to introduce any new changes nor the desire to adopt new methods. He is ready to imitate only when it becomes perfectly clear that failure to do so would definitely result in heavy loss for him. He is dominated more by customs, religions, traditions and past practices and he is not ready to take any risk at all.

**4. Drone Entrepreneur:** Drone entrepreneur is one who blindly follows the traditional methods of production even when it causes loss to him. He is not prepared to introduce any change under any circumstances in the method of production he has already introduced. He continues to carry out his business in the traditional way even when he suffers losses. For example, the coir industry in Kerala is dominated by drone entrepreneurs.

## Cole's Classification

Arthur H. Cole classifies entrepreneurs as follows:

1. Empirical Entrepreneur,
2. Rational Entrepreneur and
3. Cognitive Entrepreneur

**1. Empirical Entrepreneur:** An empirical entrepreneur is one who never introduces anything revolutionary in his method of production or business. He simply follows the principle of rule of thumb. He is similar to a drone entrepreneur.

**2. Rational Entrepreneur:** A rational entrepreneur is one who is ready to introduce even revolutionary changes on the basis of the general economic conditions prevailing in that area. He takes rational decisions by himself depending upon the situation.

**3. Cognitive Entrepreneur:** A cognitive entrepreneur is one who takes the advices and services of experts and introduces changes. Since he acts on the advice of experts, he is called a cognitive entrepreneur.

The entrepreneurs may be classified on the basis of type of business, use of technology and on the basis of motivations.

### **On the Basis of Type of Business**

On the basis of type of business, the entrepreneurs can be classified as follows:

**1. Trading Entrepreneur:** An entrepreneur who undertakes trading activities only is called trading entrepreneur. He identifies potential markets, and creates demand for his chosen product line.

**2. Industrial Entrepreneur:** An industrial entrepreneur is a product-oriented person who starts his industrial unit for manufacturing some new products.

**3. Business Entrepreneur:** The business entrepreneur conceives idea for a new product and create a business to materialise his idea into reality. He engages in both production and marketing activities.

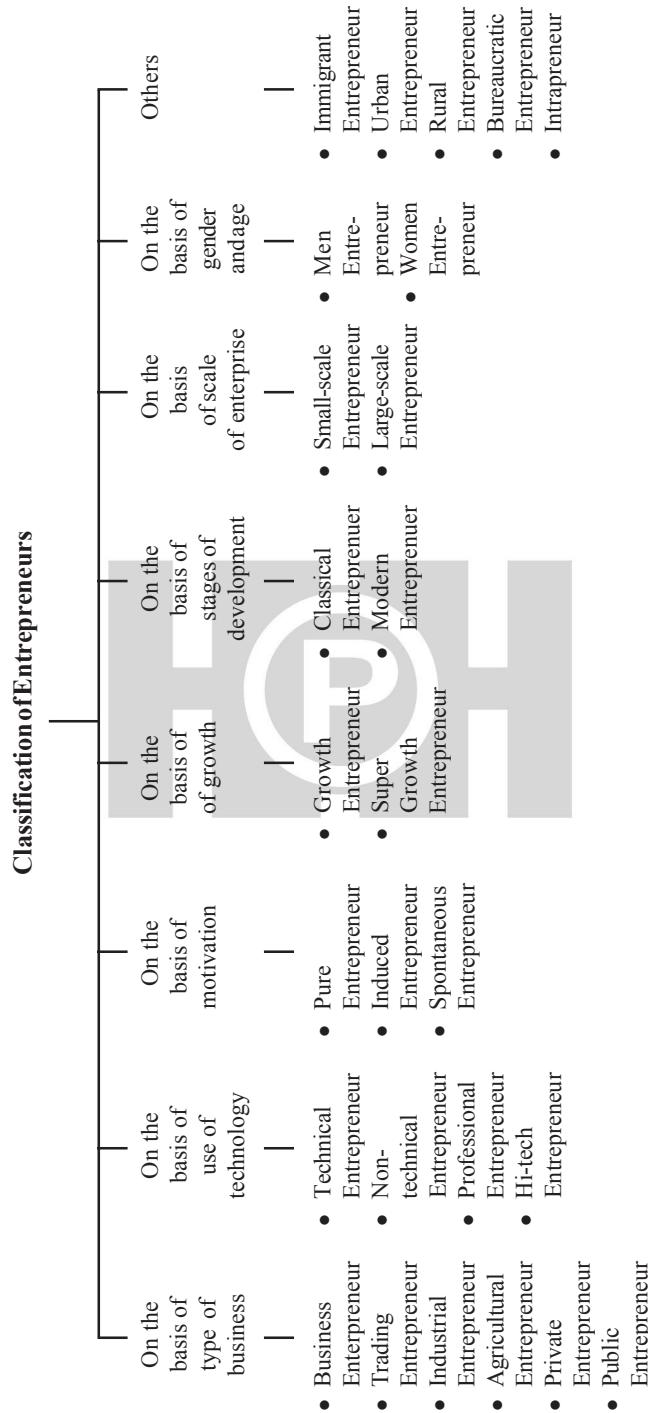
**4. Agricultural Entrepreneur:** These entrepreneurs undertake agricultural activities. They raise the productivity of agriculture through modernisation and application of modern technology.

### **On the Basis of Use of Technology**

**1. Technical Entrepreneurs:** The entrepreneurs who are technically qualified or experienced are known as Technical Entrepreneurs. Engineering graduates, diploma holders from polytechnic, etc., who use their technical knowledge in production techniques and persons with experience who use their skills in production process, when they start their venture, are technical entrepreneurs.

**2. Non-technical Entrepreneurs:** The non-technical entrepreneurs are concerned with the non-technical aspects of business such as developing marketing and distribution strategies to promote sales creating demand for their goods and services and the like.

**3. Professional Entrepreneurs:** These entrepreneurs take active part in establishing new enterprises but never stay in the business for long time. Such entrepreneurs identify innovative ideas and convert them into commercially viable projects. Once the business takes off, they sell out the existing one and start new ventures.



## On the Basis of Motivation

**Pure Entrepreneurs:** Guided by motive, these entrepreneurs start new business, apply their business skills and prove their excellence in business.

**Induced Entrepreneurs:** In order to motivate potential businessmen to start their own ventures, the Central and State Governments provide facilities and incentives and offer subsidies in the form of land at cheap rate, loans at concessional rate, tax exemption, supply of scarce raw materials, subsidy on capital investment, etc. Induced by the incentives and concessions, the entrepreneurs set up their own business units. Such entrepreneurs are called induced entrepreneurs.

**Spontaneous Entrepreneurs:** The inner urge and strong desire to become an entrepreneur, drive people to start their own business. Such entrepreneurs have self-confidence and inborn talent to run the business successfully. They set up their industrial units spontaneously with no motivation from others or inducement from promotional agencies.

## Other Classification

**1. The New Entrepreneurs:** Larry C. Farrell in his work "*Searching for the Spirit of Enterprise*" has introduced a new type of entrepreneurs called "The New Entrepreneurs." According to him, most of the self-inspired entrepreneurs are very ordinary persons except a few. Most of them have emerged as entrepreneurs only due to circumstances like being very poor; or full of frustration; or losing a job and similar other reasons. They are basically very ordinary people who find themselves in extraordinary situations in a later period and hence, they are called 'The New Entrepreneurs.'

**2. Academic Entrepreneurs:** Teachers are referred to as academicians. If they design new courses or make innovations either in curriculum or teaching methods or devise new methods of teaching, they are called as academic entrepreneurs. They attract students by acting as academic entrepreneurs and make the course programme viable and profitable.

**3. Educational Entrepreneurs:** In recent times, many entrepreneurs have come up with new ideas to engage children during summer vacation. They have novel ways to keep youngsters busy during vacations by organising a varieties of short-term courses to suit the varied requirements of children and students. Many parents also prefer them because they believe that summer schools help in occupying their children's time in a fruitful way. These entrepreneurs are called educational entrepreneurs and they have, in fact, changed the concept of the term vacation. Some of the prominent courses organised are:

- (a) Short-term courses on computer languages and electronics.
- (b) Courses on marketing, export management, personality development, etc.
- (c) Courses on fine arts like painting, music, flower arrangement, hairdressing, etc.
- (d) Coaching classes for entrance examinations of professional courses.

**4. Paper Entrepreneurs:** After liberalisation, financial operations are taking place on a global scale. A new class of entrepreneurs have emerged in this field also for buying and selling of shares, buying and selling of companies, master-minding takeovers, mergers, etc. These entrepreneurs are

actually indulging in financial speculation at the cost of actual production. In most cases, their offices can be seen as independent of any national economy or Government. This type of entrepreneurs are said to indulge in “paper entrepreneurship” and they are called paper entrepreneurs.

**5. Entrepreneur/Netpreneur:** In these days of information technology, one can become an entrepreneur very easily by launching ‘online business.’ The internet has changed the concept of everything including the business. It has reduced the task of entering into a business. With a meagre investment, any person can set up a website and look for potential customers in the line of business that he offers. An individual who launches a new business or an innovation through the internet has been called by **Adam Bryant** as the “Ontrepreneur” or “Online entrepreneur.” He can also be called ‘Netpreneur.’

### **Social Entrepreneur**

A social entrepreneur uses his entrepreneurial talent to create positive social change value for the society at large. A social entrepreneur has a unique ability to recognise the complexities of social-environmental problems. He identifies situational multiplexity as factors that lead to innovative ideas and make large-scale benefit to the society.

Commercial entrepreneurs identify and address unfulfilled market needs and wants. The motive is to increase personal as well as shareholder's wealth. The social entrepreneurs identify and address long-standing unsolved social problems. The innovation, competition and profits are driving force for commercial entrepreneurs. Social entrepreneurs foster innovation and inclusiveness which enable them to bring about a positive social change in the society.

Customer satisfaction, corporate social responsibility and brand image are the secondary goals of corporate entrepreneurial ventures whereas, growth through economic sustainability and social change are the secondary goals of social entrepreneurial ventures.

A social entrepreneur involves in all stages of the venture such as identification of social problem, idea generation, implementation and evaluation. He is, therefore, a transformational leader. A commercial entrepreneur involves in all stages of the venture such as identification of an opportunity, idea generation, implementation and evaluation. He is a Transactional leader.

### **Designpreneurs**

National Institute of Design, Hyderabad is meant to encourage entrepreneurs focussed on design. It aims to foster a culture of entrepreneurship in designers so that they come with products and services that will find a good response in the market. The objective is to create a new class of entrepreneurs called designpreneurs.

### **Motivating Factors to Become Entrepreneur**

There are varied approaches to understanding why some individuals decide to venture into entrepreneurship. There are no well-defined psychological attitudes or profiles that all entrepreneurs or characteristics to which entrepreneurs generally conform.

The National Knowledge Commission Study confirms that there is no motivating factor that triggers the decision to become an entrepreneur. The significant motivating factors are:

1. Independence – Freedom to do one's own thing
2. Market opportunity
3. Family background
4. New idea
5. Challenge
6. Desire to become an entrepreneur.

According to the study, for female entrepreneurs, the 'Independence' as well as the identification of 'marketable idea' are the most important motivators. Male entrepreneurs were found to be most significantly influenced by 'family background' and 'independence'.

'Idea driven' motivators are more significant for entrepreneurs above the age of 35. 'Market opportunity' is a far significant motivating factor for the below-35 age group.

'Independence' is the powerful motivator for the first generation entrepreneur.

'Market opportunity' has become an increasingly significant motivating factor since the economic liberalisation gathered momentum. It is the most important trigger for those with more than 10-year work experience.

## **Entrepreneurial Competencies**

Competence is a combination of knowledge, skill and appropriate motives or traits that an individual must possess to perform a given task. The entrepreneur needs to have certain knowledge, skill and traits to plan, implement and manage the small enterprises. All these characteristics put together is known as competence.

### **Knowledge**

Knowledge means the collection of information and retained facts that an individual possess and also skills to translate that knowledge into actions.

### **Skill**

Skill is the ability to perform functions that are related to attaining goal.

### **Motives and Traits**

Motive is a recurrent concern for a goal which drives and directs behaviour of a person.

Trait is a quality which includes thoughts and psychological activities related to a general category of events.

### **Kinds of Competencies**

Competencies are of two kinds:

1. Hard-skill competencies
2. Soft-skill competencies

Hard-skill competencies are those skills that are acquired through education or through work experience.

Soft-skill competencies are generally inherent in an individual or developed by him consciously.  
*Example:* Communication Skill.

Both skills are necessary to perform efficiently.

## Soft-skills

**1. Initiative:** Initiative refers to taking action beyond the job requirement or demands of the situation. Entrepreneur should think before being asked or forced to by circumstances and act to develop the business.

**2. Persistence:** Persistence means repeated action to overcome obstacles that get in the way of reaching goals.

**3. Information Seeking:** Nobody knows everything. One will have to acquire knowledge and gather information from elsewhere. Take help from experts and refer to books and journals to gain information.

**4. Concern for High Quality of Work:** Entrepreneurs should have the desire to produce work of high standard. Act to do things that meet or beat existing standards for excellence.

**5. Commitment:** Commitment means making personal sacrifice or extending extraordinary effort to complete a job. One should keep to the time schedule for delivery and satisfy the customers.

**6. Efficiency Orientation:** Efficiency orientation is finding ways to do things faster or with fewer resources or at a low cost.

**7. Systematic Planning:** Developing and using logical step by step plan to reach goals is referred to as systematic planning. One should plan by breaking up a large task into sub-tasks, develop plans that anticipate obstacles, evaluate alternatives and take a logical and systematic approach to activities.

**8. Problem Solving:** Problem solving attitude and not avoiding attitude develop competency.

**9. Seek Confidence:** One should have strong belief in oneself and his own abilities. Express confidence in your own ability to complete a task or meet challenge.

**10. Assertiveness:** Assertiveness means confronting problems with others directly. You must tell others what they have to do and discipline those failing to perform as expected.

**11. Persuasion:** Persuasion is convincing someone to buy a product or service, provide finance or do something that he would like that person to do.

**12. Use of Influence Strategies:** Use a variety of strategies to influence others. Developing business contacts, using influential people to accomplish objectives, limiting information given to others, etc., are influence strategies.

Bharat Desai, Chairman, CEO and co-founder of Syntel Inc., observes the following from his experience in the last 27 years. These could help guide prospective entrepreneurs and lay the foundation for a successful enterprise.

### **The Idea**

Having a great idea is just the first step. It needs to be combined with brilliant execution to make it a successful business venture. Most successful entrepreneurs aren't those who had a brilliant idea, but those who executed their ideas better.

### **Abilities**

When launching a business, reconcile yourself to the fact that you cannot be everything to everybody. Take a personal inventory, analyze your strengths and weaknesses. Building a successful business requires 7-10 years of non-stop effort. If you enjoy what you're doing and have the passion to drive it, the odds of success go up dramatically. In addition, you'll encounter a thousand people who will tell you why your idea can't succeed. You have to maintain an exceptional commitment to the concept and a positive outlook.

### **Research**

Understand the market for your product or service. Learn about the industry, traits and buying habits of potential customers, any potential government regulations and strengths and weaknesses of the competition. It will give you a good idea of how to position your product/service.

### **Planning**

This is one of the most important steps. Your business venture must be based on sound principles. Even abundant capital can be quickly squandered without a plan based on principles of sound financial management. Your principles should reflect your overall business goals and philosophy.

### **Leadership**

There is absolutely no substitute for positive leadership. Your enterprise will encounter many challenges – and you will need to dig deep within yourself to be the guiding light.

### **Innovate**

Innovation holds the key to continued success. The focus of an entrepreneur needs to move to innovation, including process innovation, product innovation, management innovation and business model innovation. This will help the business stay ahead of the competition and win in the market.

## **What Makes a Successful Entrepreneur?**

The survival and success rate of small business is relatively poor. This emphasises the need to gain insight into what makes a successful entrepreneur.

### **Know Your Business in Depth**

Before you set an industry, read every thing that relates to that industry – trade journals, periodicals, books, research reports and learn what it takes to succeed in it. Personal contact with customers, trade associations and others in the same industry in another way to gain knowledge. Join trade associations and visit trade shows to get valuable information and make contacts before starting the business.

### **Develop a Sound Business Plan**

Developing a sound business plan is a crucial element for business success. A good plan provides the right direction. It allows entrepreneurs to replace sometimes – faulty assumptions with facts before making the decision to start the business.

### **Manage Financial Resources**

The first step in managing financial resources effectively is to have adequate start up capital. Many entrepreneurs begin their business with inadequate capital. Estimate the capital requirements and it almost costs more than any entrepreneur expects to launch a business.

Management of cash is a crucial factor. A business must have adequate supply of cash to pay its bills and obligations. Forecasting is essential for new businesses because companies do not generate sufficient cash to stay in the early stage of the business.

### **Understanding of Basic Financial Statements**

Launching a successful business requires all entrepreneurs to have basic understanding of accounting and finance. The financial statements are reliable indicators of a firm's health. Analysis and interpretation of financial statements help to understand the potential problems such as declining sales, falling profits, raising debt, etc., which require immediate attention of the entrepreneur.

### **Learn to Manage People**

Every business depends on a foundation of well trained and motivated employees. Hiring and retaining a corps of quality employees is not an easy task. The entrepreneurs must learn to attract right people and manage them effectively.

### **Passion for Business**

The success of the business depends on constant presence and attention of the entrepreneur. This needs physical and mental health. The entrepreneur must monitor his health closely.

Time is the most valuable asset. An entrepreneur must learn to manage time effectively. All these are possible only when he has passion for his business.

## **Entrepreneur and Economic Development**

Every country is very keen in promoting its economic development. Economic development implies development of agriculture and industry resulting in an increase in the *per capita* income of the country. It is clear that economic development cannot occur spontaneously. The economic development largely depends on human resources. Again, human resources alone cannot produce economic development. It requires an agent who is nothing but a dynamic entrepreneur. The entrepreneur really acts as a hero in the drama of economic development. The crucial role being played by entrepreneurs in the economic development of a country can be studied under the following heads:

**1. Coordinating Role:** The essential function of an entrepreneur is to coordinate the various factors of production. Coordination involves selection of the right type of factors, employment of each factor in the right quantity, use of the best technology, division of labour, etc. He must also see that the best combination of factors is made available for the production process. **Schumpeter** feels that economic development will be a reality if new combinations of factors of production are undertaken. In the absence of this coordinating role, the factors of production will remain idle in the country. Thus, entrepreneurs enhance economic growth by coordinating and integrating the resources available in the country.

**2. Agent's Role:** Entrepreneurs are aptly called 'Agents of change.' Entrepreneurs act as catalyst or agent of economic development by perceiving opportunities and putting them into action. Entrepreneurs, seizing opportunities, set up business undertakings and industries and thereby make economic transformation. Thus, economic development is an effect for which entrepreneurship is the cause.

**3. Role of Innovation:** Innovation is a key to entrepreneurship. Innovation implies the commercial application of an invention. As an innovator, the entrepreneur assumes the role of a pioneer and an industrial leader. Entrepreneurs have contributed many innovations in developing new products and in the existing products and services. All these have resulted in economic development by providing more employment, more income, etc. In fact, the innovative activity raises the productive efficiency of the economy resulting in greater output and income. **Schumpeter** finds the secret of economic development in this rising productivity. Thus, innovative entrepreneurship can alter the production function of nations and bring about rapid development. In their absence, many scientific inventions would have remained as they were.

**4. Risk Assumption Role:** The most important function of an entrepreneur is the assumption of risk. Every productive venture involves risks and production cannot take place if people do not come forward to bear risks. The economic reward for risk bearing is profit. The quantum of profit depends upon the quantum of risks undertaken. Profit leads to saving of wealth which ultimately goes to capital formation which is the basic ingredient for economic development. Thus, entrepreneurs promote economic development by coming forward to assume risks of productive ventures.

**5. Imitating Role:** Entrepreneurs in developing countries take the role of "imitators" who generally copy the innovations introduced by the "innovative" entrepreneurs of the developed countries. They copy the organisation, technology and the products of innovation from other developed regions. They are capable of adopting the innovative technology to the local conditions prevailing in the country and establish business enterprises. Imitative entrepreneurship seems to be the best medicine for underdeveloped countries to overcome their entrepreneurial ills and bring about substantial economic development. They constitute the main spring of development of underdeveloped regions.

**6. Capital Formation Role:** Entrepreneurs promote capital formation by mobilising the idle savings of the public. Again, the profits they earn lead to saving of wealth which ultimately goes to capital formation. Entrepreneurs have been referred to as the human agents needed to "mobilise capital to exploit natural resources, to create markets and to carry on trade." Without capital formation, economic development would remain static.

**7. Balancing Role:** Developing countries like India aims at decentralised industrial structure to remove the regional imbalances in the levels of economic development. Entrepreneurs play a dominant role to achieve balanced regional development by starting small-scale industries. Small-scale industries provide immediate large-scale employment, ensure a more equitable distribution of national income and thus, facilitate balanced regional development. Moreover, it should be noted that from small enterprises, entrepreneurs get inspiration to start large units which have a wider impact on the economy as a whole.

**8. Status Transformation Role:** Entrepreneurs create wealth, generate employment and income and thereby they increase the standard of living of the people. People are able to have a better standard of living by getting improved products and comforts provided by entrepreneurs.

Increase in the standard of living automatically promotes and stimulates economic development and it has the effect of reducing the wide disparity in income levels. It also helps to reduce the concentration of economic power.

**9. Employment Generation Role:** Entrepreneurs with high achievement motivation come forward to establish business and industry ventures which provide immediate large-scale employment. Thus, entrepreneurs help to reduce the unemployment problem in the country. In fact, unemployment problem is the root cause of all socio-economic problems.

**10. Export Promotion Role:** Entrepreneurs also promote a country's export trade which is an important ingredient to economic development.

Thus, the entrepreneur is always on the lookout of making the economic system at its dynamic best. They stimulate progress by means of their entrepreneurial activities and act as mainspring of economic development. They have the potential of transforming their underdeveloped economies into developed one.

## TEST YOUR KNOWLEDGE

### I. Fill up the Blanks with Suitable Word/Words

1. The word entrepreneur is derived from the Latin word \_\_\_\_\_.
2. The plans for an enterprise are prepared by \_\_\_\_\_ whereas they are executed by \_\_\_\_\_.
3. Entrepreneur arising within an organisation is called \_\_\_\_\_.
4. The entrepreneur who has neither the will nor the desire to introduce and adopt new methods is called \_\_\_\_\_.
5. The entrepreneur who launches an 'online business' is called \_\_\_\_\_.

[Ans: 1. *Entreprendre*, 2. Entrepreneur and Manager, 3. Intrapreneur, 4. Fabian entrepreneur, 5. Ontrepreneur Netpreneur.]

### II. Choose the Best Answer from the Following

1. The most important function of an entrepreneur is \_\_\_\_\_.
 

(a) Risk assumption function	(b) Managerial function
(c) Function of innovation	(d) Decision making function.

2. When an enterprise is launched by married couple, they are called \_\_\_\_\_.  
(a) Netpreneurs (b) Copreneurs  
(c) Intrapreneurs (d) Couple-preneurs
3. The entrepreneur who blindly follows the traditional methods of production in spite of the loss is called \_\_\_\_\_.  
(a) Drone entrepreneur (b) Adoptive entrepreneur  
(c) Fabian entrepreneur (d) Innovative entrepreneur
4. Teachers who make innovations in curriculum by designing new courses are called \_\_\_\_\_.  
(a) Educational entrepreneurs (b) Cognitive entrepreneurs  
(c) Empirical entrepreneurs (d) Academic entrepreneurs

[Ans: 1. (c), 2. (b), 3. (a), 4. (d).]

### III. State Whether the Following Statements are True or False

1. The term entrepreneur refers to entrepreneurship.
2. An intrapreneur emerges within the frontiers of an existing organisation.
3. Innovative entrepreneurs are scarce in developing countries.
4. Imitative entrepreneurs are scarce in developing countries.
5. Soft skills are those skills that are acquired through education.

[Ans: (i) False, (ii) True, (iii) True, (iv) False, (v) False.]

### IV. Short Answer Type

1. Define the term entrepreneur.
2. Who is an intrapreneur?
3. What is frugal innovation?
4. Who is a Cognitive entrepreneur?
5. Distinguish between 'entrepreneur' and 'ontrepreneur.'
6. Who is a social entrepreneur?

### V. Paragraph Answer Type

1. Define the term 'entrepreneur' and distinguish it from 'manager.'
2. Describe the main functions of an entrepreneur.
3. Distinguish between an innovative entrepreneur and an adoptive entrepreneur.
4. Who is an intrapreneur? Bring out his characteristic features.

### VI. Essay Type

1. Define an entrepreneur and bring out his functions and characteristic features.
2. Classify entrepreneurs and bring out their features.
3. Discuss the role of entrepreneurs in the economic development of a country.