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## Unit - 4 : Entrepreneur: Types and Functions

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### Structure of Unit:

- 4.0 Objectives
- 4.1 Introduction
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### 4.0 Objectives

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After completing this unit, you will be able to:

- Classify different types of entrepreneurs on various bases.
- Look at the reasons for entrepreneurial failure.
- Describe the various functions of entrepreneurs.
- Understand the role and significance of entrepreneur in economic development
- Establish a relationship between entrepreneur and entrepreneurship.
- Come across the rewards and challenges of being an entrepreneur.

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### 4.1 Introduction

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The role of entrepreneurs in economic development varies from economy to economy, country to country, depending upon its material resources, industrial climate and more importantly, the responsiveness of the political system to the growth of entrepreneurs. Liberalization and the new economic policy have thrown upon the doors for every entrepreneur to seek its own fortunes and thus contribute to the growth of the economy. And entrepreneur is an important input of economic development. He is a catalyst of development. Only the entrepreneurs create capital, wealth and resources in a country by their inventive and risk-taking behaviour. They are the prime movers of industrial development in a country. Entrepreneurs are found in every economic system and in every type of economic activity. Artisans, traders, importers, engineers, exporters, bankers, industrialists, farmers, forest workers, tribal's, professionals, politicians, and bureaucrats, any one from these could be entrepreneur. The nature of entrepreneurs differs according to their functions.

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### 4.2 Types of Entrepreneur

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Researchers who have studied entrepreneurial behaviour suggest that there are different types of entrepreneurs. Classifying entrepreneurs into various categories is a tricky issue. The taxonomy of entrepreneurs can be carried out in various ways. Entrepreneurs can be classified on various basis. Clarence Denhof Classifies entrepreneurs on the basis of stage of economic development: some others have classified on the basis of their functions and characteristics. In the initial stages of economic development, entrepreneurs tend to have less initiative and drive. As development proceeds, they become more innovating and enthusiastic. The various types of entrepreneurs are classified on certain parameters. Some important classifications are described below:

**1. On the Basis of Economic Development:** Clarence Danhof classified entrepreneurs into four groups on the basis of economic development.

**A. Innovating Entrepreneurs:** This type of entrepreneurship is characterized by aggressive assemblage of information and the analysis of results deriving from novel combination of factors of production. Entrepreneurs falling in this class are generally aggressive in experimentation and exhibited shrewdness in putting attractive possibilities into practice.

They are the entrepreneurs who have creative and innovative ideas of starting a new business. An innovating entrepreneur sees the opportunity for introducing a new technique or a new product or a new market. He may raise money to launch an enterprise, assemble the various factors, and choose top executives and the set the organization going. Schumpeter's entrepreneur was of this type. Innovative entrepreneurs thus, results in the creation of something new. They are the contributors to the economic development of a country.

Innovating entrepreneurs are very commonly found in undeveloped countries. There is dearth of such entrepreneurs in developed countries. Innovating entrepreneurs played the key role in the rise of modern capitalism, through their enterprising spirit, hope of moneymaking, ability to recognize and exploit opportunities, etc.

**B. Adoptive or Imitative Entrepreneur:** There is a second group of entrepreneurs generally referred as imitative entrepreneurs. The imitative entrepreneurs copy or adopt suitable innovations made by the innovative entrepreneurs. They do not innovate the changes himself. They only imitates technology innovated by others.

Such entrepreneurs are particularly important in developing countries because they contribute significantly to the development of such economies. Imitative entrepreneurs are most suitable for the developing regions because in such countries people prefer to imitate the technology, knowledge and skill already available in more advanced countries. In highly backward countries there is shortage of imitative entrepreneurs also. People who can imitate the technologies and products to the particular conditions prevailing in these countries are needed.

Sometimes, there is a need to adjust and adopt the new technologies to their special conditions. Imitative entrepreneurs help to transform the system with the limited resources available. However; these entrepreneurs face lesser risks and uncertainty than innovative entrepreneurs. While innovative entrepreneurs are creative, imitative entrepreneurs are adoptive.

**C. Fabian Entrepreneur:** The third type is Fabian entrepreneur. By nature these entrepreneurs are shy and lazy. This type of entrepreneurs have neither will to introduce new changes nor desire to adopt new methods of production innovated by the most entrepreneurs. They follow the set procedures, customs, traditions and religions. They are not much interested in taking risk and they try to follow the footsteps of their predecessors. Usually they are second generation entrepreneur in a business family enterprise.

**D. Drone Entrepreneur:** The fourth type is Drone entrepreneurs who refuse to copy or use opportunities that come on their way. They are conventional in their approach and stick to their set practices products, production methods and ideas. They struggle to survive not to grow. They may be termed as Laggards. In such cases the organization loses market, their operations become uneconomical and they may be pushed out of the market.

**2. On the Basis of Type of Business:** Under this category we can classify entrepreneurs as described below:

**A. Business Entrepreneurs:** They are the entrepreneurs who conceive an idea for a new product or service and then create a business to materialize their idea into reality. They tap the entire factor of production to develop a new business opportunity. They may set up a big enterprise or a small scale business. When they establish small business units they are called small business entrepreneurs. In a majority of cases, entrepreneurs are found in small trading and manufacturing business.

**B. Trading Entrepreneur:** These entrepreneurs undertake trading activities and are not concerned with the manufacturing work. They identify the potentiality of their product in markets, stimulate demand for their product line among buyers. They may go for both domestic and overseas trade. These entrepreneurs demonstrated their ability in pushing many ideas ahead which promoted their business.

**C. Industrial Entrepreneur:** Industrial entrepreneur is essentially a manufacturer who identifies the needs of customers and creates products or services to serve them. He is product-oriented who starts through an industrial unit to create a product like electronic industry, textile unit, machine tools.

**D. Corporate Entrepreneur:** These entrepreneurs used his innovative skill in organizing and managing a corporate undertaking. A corporate undertaking is a form of business organisation which is registered under some statute or Act like a trust registered under the Trust Act, or a company registered under the Companies Act. These corporate work as separate legal entity. He is thus an individual who plans, develops and manages a corporate body.

**E. Agricultural Entrepreneur:** Agricultural entrepreneurs are those who undertake agricultural activities as through mechanization, irrigation and application of technologies to produce the crop. They cover a broad spectrum of the agricultural sector and include agriculture and allied occupations.

**3. According to the Use of Technology:** The application of new technology in various sectors of the national economy is essential for the future growth of business. We may broadly classify these entrepreneurs on the basis of the use of technology as follows:

**A. Technical Entrepreneurs:** With the decline of joint family business and the rise of scientific and technical institutions, technically qualified persons have entered the field of business. These entrepreneurs may enter business to commercially exploit their inventions and discoveries. Their main asset is technical expertise. They raise the necessary capital and employ experts in financial, legal- marketing and other areas of business. Their success depends upon how they start production and on the acceptance of their products in the market.

**B. Non-technical Entrepreneur:** Non-technical entrepreneurs are those who are not concerned with the technical aspects of the product or service in which they deal. They are concerned only with developing alternative marketing and promotional strategies for their product or service.

**C. Professional Entrepreneur:** Professional entrepreneur is an entrepreneur who is interested in establishing a business but does not have interest in managing it after establishment. A professional entrepreneur sells out the existing business on good returns and starts another business with a

new idea. Such an entrepreneur is dynamic and conceives new ideas to develop alternative projects.

**4. According to Motivation:** Motivation is the main force that promotes the efforts of the entrepreneur to achieve his goals. An entrepreneur is motivated to achieve or prove his excellence in their performance. According to motivation we can classify entrepreneur as:

**A. Pure Entrepreneur:** A pure entrepreneur is the one who is motivated by psychological economical, ethical considerations. He undertakes an entrepreneurial activity for his personal satisfaction in work, ego or status.

**B. Induced Entrepreneur:** This type of entrepreneur is one who induced to take up an entrepreneurial task due to the policy reforms of the government that provides assistance, incentives, concessions and other facilities to start a venture. Most of the small scale entrepreneurs belong to this category and enter business due to financial, technical and several other facilities provided to them by the various agency of Govt. to promote entrepreneurship. Today, import restrictions and allocation of production quotas to small units have induced many people to start a small scale unit.

**C. Motivated Entrepreneur:** New entrepreneurs are motivated by the desire for self-fulfillment. They come into being because of the possibility of making and marketing some new products for the use of consumers. They are motivated through reward like profit.

**5. According to Growth:** The industrial units are identified as high growth, medium growth and low growth industries and as such we have 'Growth Entrepreneur' and 'Super Growth Entrepreneur.'

**A. Growth Entrepreneur:** He necessarily takes up a high growth industry and chooses an industry which has sustained growth prospects. Growth entrepreneurs have both the desire and ability to grow as fast as large as possible.

**B. Super-Growth Entrepreneur:** This category of entrepreneurs is those who have shown enormous growth of performance in their venture. The growth performance is identified by the high turnover of sales, liquidity of funds, and profitability.

**6. According to Entrepreneurial Activity:** Based on entrepreneurial activity, entrepreneurs are classified as novice, serial, and portfolio entrepreneur.

**A. Novice Entrepreneur:** A novice is someone who has started his/her first entrepreneurial venture. A novice entrepreneur is an individual who has no prior business ownership experience as a business founder, inheritor of a business, or a purchaser of a business. It is not similar to early starter; a novice can also be a 50 year old with over 25 years of experience in the industry.

**B. A Serial Entrepreneur:** A Serial Entrepreneur is someone who is devoted to one venture at a time but ultimately starts many. It is the process of starting that excites the starter. Once the business is established, the serial entrepreneur may lose interest and think of selling and moving on.

**C. Portfolio Entrepreneur:** A portfolio entrepreneur is an individual who retains an original business and builds a portfolio of additional businesses through inheriting, establishing, or purchasing them. A portfolio entrepreneur starts and runs a number of businesses. It may be a strategy of spreading risk or it may be that the entrepreneur is simultaneously excited by a variety of opportunities. Also, the entrepreneur may see some synergies between the ventures.

## 7. Other Entrepreneurs:

**A. First-Generation Entrepreneurs:** This category consists of those entrepreneurs whose parents or family had not been into business and was into salaried service. The booming economy of India has led to a multitude of business opportunities, and with deregulation, it has become easier to set up businesses. Also, with a change in the mindset of the middle class, it is now more acceptable to become an entrepreneur. A first-generation entrepreneur is one who starts an industrial unit by means of an innovative skill. He is essentially an innovator, combining different technologies to produce a marketable product or service.

**B. Modern Entrepreneur:** A modern entrepreneur is one who undertakes those businesses which go well along with the changing scenario in the market and suits the current marketing needs.

**C. Women Entrepreneurs:** Women as entrepreneurs have been a recent phenomenon in India. The social norms in India had made it difficult for women to have a professional life. Now this has changed. Progressive laws and other incentives have also boosted the presence of women in entrepreneurial activity in diverse fields. In 1988, for the first time, the definition of Women Entrepreneurs' enterprise was evolved that termed an SSI unit/industry-related service or business enterprise, managed by one or more women entrepreneurs in proprietary concerns, or in which she/they individually or jointly have a share capital of not less than 51 per cent as partners / shareholders / directors of a private limited company / members of a cooperative society, as a Woman Enterprise.

**D. Nascent Entrepreneur:** A nascent entrepreneur is an individual who is in the process of starting a new business.

**E. Habitual Entrepreneur:** A habitual entrepreneur is an individual who has prior business ownership experience. The nascent entrepreneur can either be a novice or a habitual entrepreneur.

**F. Lifestyle Entrepreneurs:** Lifestyle entrepreneurs have developed an enterprise that fits their individual circumstances and style of life. Their basic intention is to earn an income for themselves and their families.

**G. Copreneurs:** It is related to the married couples working together in a business. When a married couple share ownership, commitment and responsibility for a business, they are called "copreneurs". As copreneurs, couples struggle in ventures to establish equality in their relationships. Such couples represent the dynamic interaction of the systems of love and work.

**H. IT Entrepreneurs:** IT entrepreneurs are creating a new business platform that takes them straight to the top. They are confident, ambitious innovative and acquired creativity in the competitive global environment and created a niche of their self. They are the brave new bunch of entrepreneurs who are raring to take on the world of information technology.

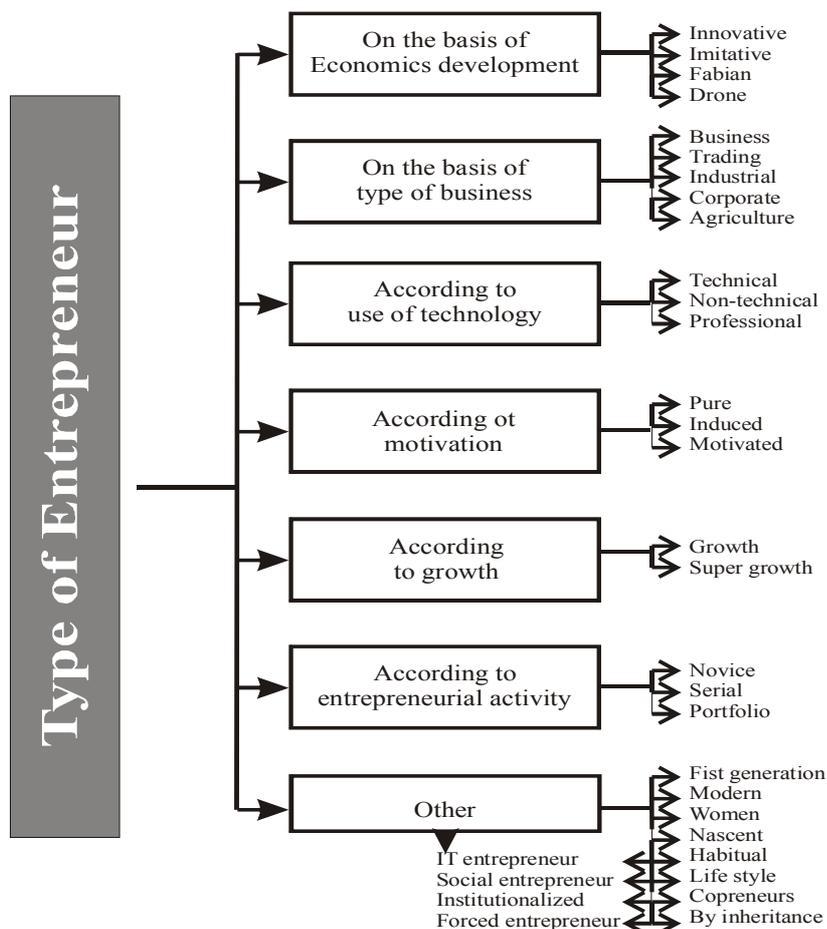
**I. Social Entrepreneur:** Social entrepreneur is one who recognizes the part of society which is stuck and provides new ways to get it unstuck. Be it dedicated efforts for child upliftment, fighting for the conservation of Assam's rainforests, working for the betterment of the blind or initiatives to empower women, the entrepreneur's passion is very strong. Freedom, wealth, exposure, social mobility and greater individual confidence are driving this huge wave of social innovation and entrepreneurship. After all are tired with the Inefficiency of governments and the indifference of corporate, and want to make a change and this is the case everywhere.

**J. Forced Entrepreneurs:** The money-lenders of yesterday, who are thrown out of their family business because of government legislation, the neo-rich Indians returning from abroad and the educated unemployed seeking self-employment form this class of entrepreneurs.

**K. Individual and Institutional Entrepreneurs:** In the small scale sector individual entrepreneurs are dominant. Small enterprises outnumber the large ones in every country. Such entrepreneurs have the advantage of flexibility, quick decision making. But a single individual can establish, operate and control an organization up to a limit. Thereafter, it becomes necessary to institutionalize entrepreneurship. The business will have to acquire a number of new entrepreneurial skills through a corporate body. A group of entrepreneurs has to be developed to handle the increasingly complex network of decision making. The central function of the entrepreneur remains the same but the basic decisions like the line of business, the amount of capital employed, etc. are taken collectively by the promoters at the helm of affairs. Thus, individual entrepreneur and institutional entrepreneur coexist and support each other. Corporate sector the symbol of institutionalized entrepreneurship.

**L. Entrepreneurs by Inheritance:** At times, people become entrepreneurs when they inherit the family business. In India, there are a large number of family controlled business houses. Firms in these houses are passed from one generation to another.

The various types of entrepreneur based on certain basis are also explained in the figure 4.1:

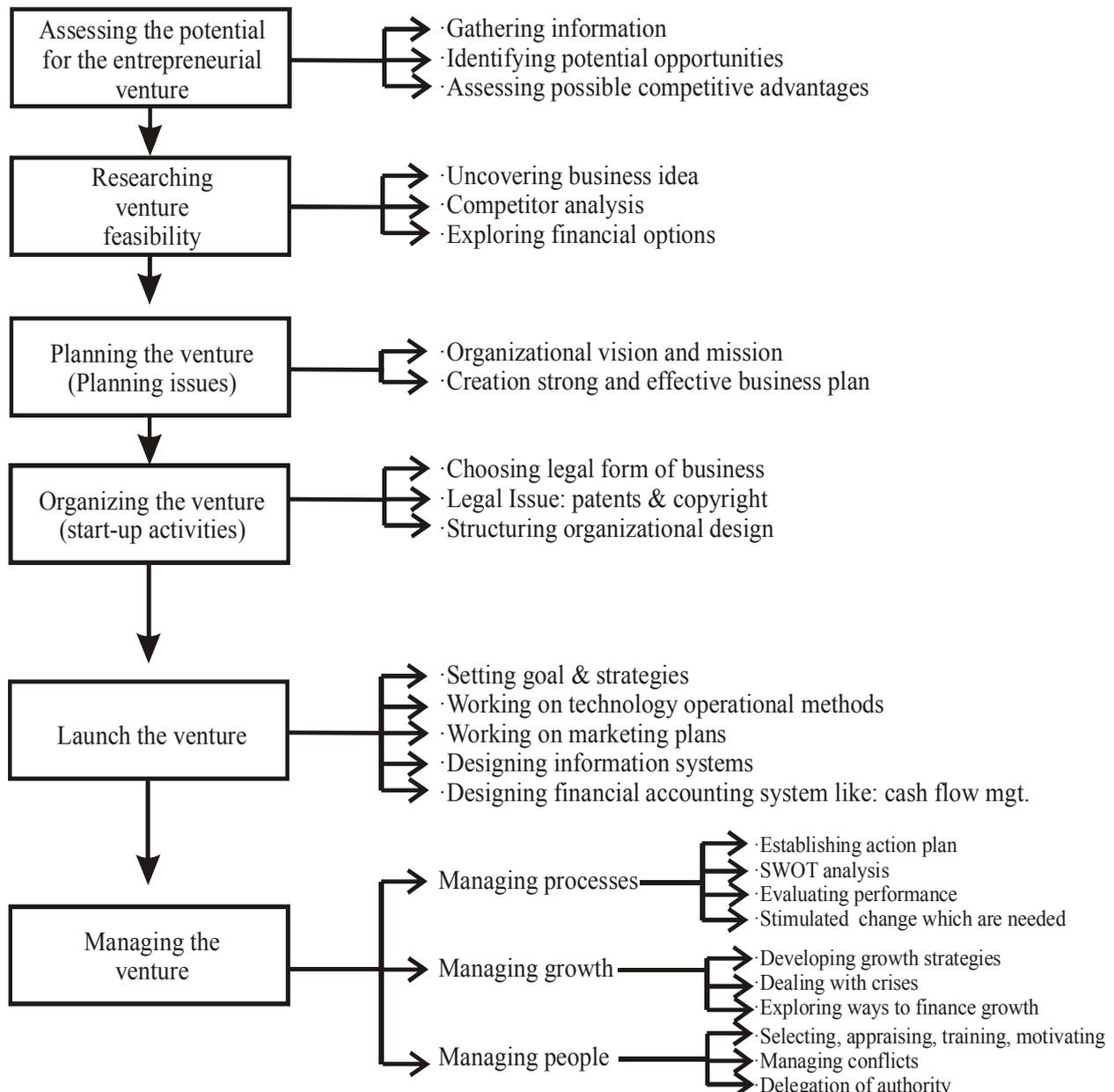


**Figure 4.1 : Types of Entrepreneurs**

### 4.3 Functions of Entrepreneurs

Entrepreneur is an opportunity seeker and organizer and coordinator of the factor of production. He not only perceives the business opportunities but also mobilizes the other resources like – man, money, machine, materials and methods. According to some economists, the functions of an entrepreneur are establishing co-ordination. In business enterprise, risk-taking, controlling the enterprise, innovation for change, motivation and other related activities. In reality, an entrepreneur has to carry out a combination of these functions in keeping with time and environment. Truly, he has to consider new ideas, demands and exploit the opportunities, and thereby contribute to technical progress. A successful entrepreneur recognizes the potential of a product or service, design operating policies in marketing, production, product development and the organisational structure. He carries out the whole set of activities of the business. He has a high capacity for taking calculated risks and has faith in his own capabilities.

An entrepreneur performs all the necessary functions which are essential from the point of view of operation and expansion of the enterprise. We can explain this through the flow diagram described in figure 4.2:



**Figure 4.2 : Functions of Entrepreneurs**

Kilby identify thirteen functions of an entrepreneur, which included some of the managerial functions also. Kilby has classified these functions into four groups. These are as follows:

- A. Exchange Relationship:**
  1. Perceiving market opportunities.
  2. Gaining command over scarce resources.
  3. Purchasing inputs.
  4. Marketing of the products and responding to competition.
- B. Political Administration:**
  1. Dealing with the public bureaucracy (concession, licenses & taxes)
  2. Managing human relation within the firm.
  3. Managing customer and supplier relations.
- C. Management Control:**
  1. Managing finance
  2. Managing production
- D. Technology:**
  1. Acquiring and overseeing assembly of the factory.
  2. Industrial engineering
  3. Upgrading process and product quality.
  4. Introducing new production techniques and products.

Kilby suggested these functions may vary according to the size, type and setting of an enterprise and could be augmented through training and education. By summing up we can say that Entrepreneurs perform the following functions:

**1. Innovation:** A very important function performed by entrepreneur is that of innovation. They analyze the existing state of company's affairs and try to reach a new level of equilibrium by trying new and productive combinations of existing resources. They think of creative ideas and use their managerial and innovative skills to put those ideas into reality. They combine the productive factors, bring them together and help in the economic development of a nation.

According to Schumpeter, innovation can occur in the following forms:

- Introduction of new goods ;
- The use of new method of production ;
- The opening of a new market ;
- The conquest of a new source of supply of raw materials ; and
- The reorganization of any industry.

According to Robert Wilken entrepreneurs contribute change that can be categorized into five types:

- 1. Initial Expansion:** the original production of goods.
- 2. Subsequent Expansion:** the subsequent change in the amount of goods produced.
- 3. Factor Innovation:** the increase in supply or productivity of the factors of production.
  - (a) Financial: the procurement of capital from new sources or in new form.
  - (b) Labour: the procurement of labour from a new source or of a new type; the upgrading of existing labour.
  - (c) Material: the procurement of old material from a new source or the use of a new material.

**4. Production Innovations:** changes in the production process.

(a) Technological: the use of a new production technique.

(b) Organizational: change in the form of structure of relationships among people.

**5. Market Innovation:** changes in the size or composition of the market.

(a) Product: the production of a new good or the change in quality or cost of existing goods.

(b) Market: the discovery of a new market.

Innovation involves imagination and creativity. It is so basic that a person cannot be called an entrepreneur unless' he creates something new and something different in his venture.

**2. Assumption of Risk:** An idea that is put to reality does not guarantee success. Entrepreneurs assume the risk of success or failure of the enterprise that they wish to launch. Such risks are not insurable. If they materialize, the entrepreneur has to bear the loss himself. Thus, risk-bearing or uncertainty-bearing still remains the most important function of an entrepreneur which he tries to reduce by his initiative, skill and good judgement.

**3. Idea Generation:** Entrepreneurs do not immediately think of ideas and put them into practice. Ideas can be generated through environmental scanning and market survey. It is the function of the entrepreneurs to generate as many ideas as he can for the purpose of selecting the best business opportunities which can subsequently be taken up by him as a commercially - viable business venture. They think of a variety of ideas, apply quantitative techniques to test their applicability, supplement them with empirical findings, arrive at the best alternative and apply it in practice. The selection of an idea, thus, involves the application of research methodology by the entrepreneurs, vision, insight, observation, experience, education, training and exposure of the entrepreneur. Idea generation precisely implies product selection and project identification.

**4. Organizing and Management:** An entrepreneur brings together various resources of production, organizes them properly and converts them into a productive unit. As regards the proposed projects, an entrepreneur manages the following activities:

- Scanning of the business environment (SWOT Analysis)
- Measuring the suitability of business idea.
- **Market Research and Selection of Product Line:** The next important function of the entrepreneur is market research and product market research is the systematic collection of data regarding the product which the entrepreneur wants to manufacture. Entrepreneur has to undertake market research persistently in order to know the details of the intending product, i.e., the demand for the product, selection of product line, the price of the substitute product, the size of the customer, etc. while starting an enterprise.
- Studying the government rules, regulation and policies.
- Performing government formalities.
- **Determination of Objectives:** The next function of the entrepreneur is to determine and lay down the mission, vision, objectives and goals of the business, which should be spelt out on clear terms. In other words, entrepreneur should be very much clear about future prospect of the venture.
- **Determination of Form of the Venture:** The function of an entrepreneur in determining the form of enterprise is also important. Entrepreneur has to decide the form of enterprise based upon the nature of the product, volume of investment, nature of activities, types of product, quality of product,

quality of human resources, etc. The major forms of ownership organizations are sole proprietorship, partnership, joint stock company and cooperative society.

- **Managing of Funds:** Fund raising is the most important function of an entrepreneur. All the activities of a business depend upon the finance and its proper management. It is the responsibility of the entrepreneur to raise funds internally as well as externally.
- Selection of Location:
- **Procurement of Raw Material** Entrepreneur has to identify the cheap and regular sources of supply of raw materials, which will help him to reduce the cost of production and face the competition.
- **Procurement of Machinery:** The next function of the entrepreneurs is to procure the machineries and equipments for establishment of the venture. While procuring the machineries, he should specify the following details:
  - (a) The details of technology
  - (b) Installed capacity of the machines
  - (c) After sales service facilities
- **Recruitment Selection and Placement of Manpower :** Entrepreneur has to perform the following activities while undertaking this function :
  - (a) Estimating manpower need of the organization
  - (b) Laying down of selection procedure
  - (c) Placing the employee

Another important function of entrepreneur is 'financial planning', which translates all other activities into monetary terms. Though an entrepreneur is more than a manager, he combines in him some managerial functions. He deals with day-to-day affairs of a going concern by directing and controlling the employees.

**5. Decision Making:** Arther H. Cole has described the entrepreneur as a 'decision maker'. He takes various decisions regarding following matters:

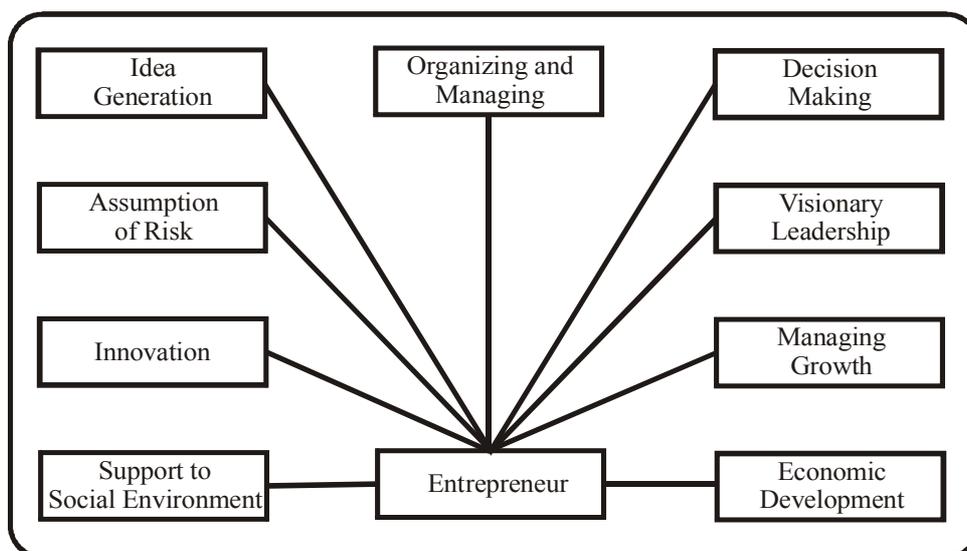
- ❖ The determination of these objectives of the enterprise and the change of those objectives as conditions required or made advantageous;
- ❖ The development of an organisation, including efficient relations with subordinates and all employees;
- ❖ Securing adequate financial resources, and maintaining good relations with the existing and potential investors ;
- ❖ The requisition of efficient technological equipment and the revision of it as new machinery appeared ;
- ❖ The development of a market for the products and the devising of new products to meet or anticipate consumer's demand: and
- ❖ The maintenance of good relations with public authorities and with the society at large.

**6. Leading:** As an entrepreneurial venture flourish, an entrepreneur takes on a new role of a leader. He acts as a visionary leader. The entrepreneur's leading function is drawing the best out of his human resources. He must create teamwork, motivation among employees. As a leader, entrepreneurs must shift from the command-and-control style of managing to a coach-and-collaboration style.

**7. Managing Growth:** The entrepreneur must manage the enterprise's growth. It includes such activities as developing and designing appropriate growth strategies, dealing with crises, exploring various ways for financing growth and placing a value on the venture.

**8. Support to Social Environment:** Social environment is characterized by social customs, culture, values and beliefs. Changes are not easily acceptable in a given socio-economic environment of a country. Entrepreneurs discover new sources of materials, new markets, and new opportunities and establish new and more lucrative forms of organizations. This is a reflection of their will power, enthusiasm and energy and helps in overcoming the society's resistance to change.

**9. Economic Development:** Entrepreneurs play an important role in accelerating the rate of economic development of developed and under-developed countries. They exploit the country's resources (land, labour, capital and technology) and optimize their utilization to result in development of that country.



**Figure 4.3 : Functions of an Entrepreneur**

An entrepreneur performs many useful functions. He undertakes a venture, assumes risk and earns profit. He is the man having a strong motivation to achieve success. He is self-confident in his entrepreneurial abilities. He exploits opportunities wherever and whenever they arise.

As you can tell from the above descriptions, being an entrepreneur is an exciting proposition! Entrepreneurs do a variety of things and deal with a multitude of challenges. In fact, we can say that entrepreneurial behaviour is complex, intentional, and passionate. Yet, it's primarily because of these qualities that it is prudent for you to know, from the start, the rewards and challenges of being an entrepreneur.

#### The Rewards and Challenges of Being an Entrepreneur

##### **Rewards:**

- High degree of independence – freedom from constraints
- Get to use a variety of skills and talents
- Freedom to make decisions
- Accountable to only yourself
- Opportunity to tackle challenges
- Feeling of achievement and pride
- Potential for greater financial rewards

### Challenges:

- Must be comfortable with change and uncertainty
- Must make a bewildering number of decisions
- May face tough economic choices
- Must be comfortable with taking risks
- Need many different skills and talents
- Must be comfortable with the potential of failure

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## 4.4 Role of Entrepreneurs

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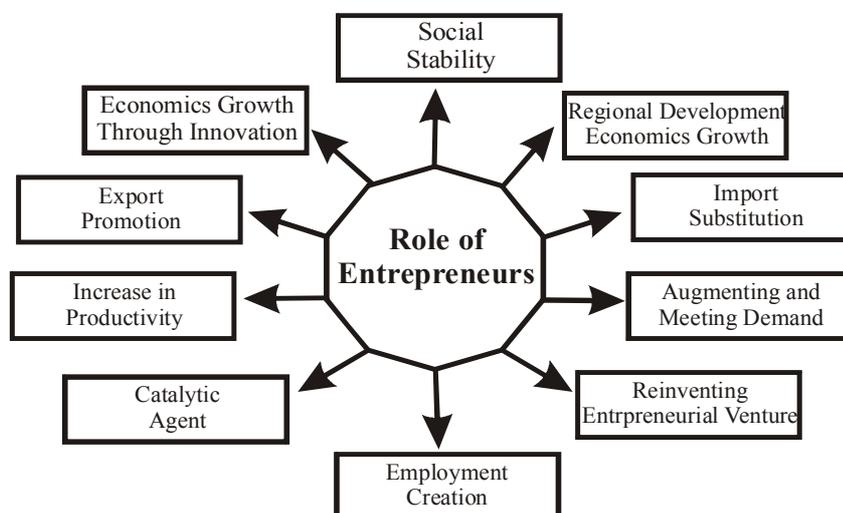
Entrepreneurs play a significant role in economic development of a country. He promotes the prosperity of a nation by his innovation and dynamic leadership Skills. He creates wealth, opens up employment opportunities and fosters the other segments. According to Harbison, entrepreneurs are prime movers of innovation, growth and as such, entrepreneurship is a dynamic force. The role and significance of an entrepreneur are explained below :

1. **Bringing Economic Growth and Prosperity:** Entrepreneur bring economic growth and prosperity in the country through generation of employment opportunities, capital and wealth creation, increasing per capita income and GDP, improvement in quality of life by raising the standard of living, growth of infrastructural facilities, forward and backward linkages in society, development of backward regions, economic independence. George gilder observes, “The ‘heroic creativity of entrepreneur came to seem essential to our economic well-being in a global economy”. Baumbach and Mancuso write, “In underdeveloped nations, entrepreneurs often hold the key to economic growth for a whole society. So entrepreneur is not a dirty word or a fast buck opportunist, but, rather the backbone of the capitalist system”.
2. **Brining Social Stability and Balanced Regional Development:** Entrepreneurs play a crucial and unique role in bringing about social stability and balanced regional development through absorption of workforce in industries, removal of poverty, improving health and education facilities, creating fair competition, equitable distribution of income, creation of social infrastructures, empowering women and weaker sections of the society and supply of qualitative goods and services

Although entrepreneurs are criticized as self interested exploiters, Adam Smith, while recognizing that they do some good for society, partly reflected this view when he wrote in *The Wealth of Nations*: “In spite of their natural selfishness and rapacity, though they mean only their convenience, though the sole end which they propose from the labours of all the thousands they employ be the gratification of their own vain and insatiable desires they are led by a hidden hand, and without intending it, without knowing it, advance the interest of society”.

3. **Innovator in Economic Growth:** by bringing new ideas, combinations, products techniques, organizations, new markets, making full use of technical knowledge, balanced growth, systematic innovation, technological advancement, implementation of mechanical skills, an entrepreneur play very crucial role in encouraging entrepreneurship and economic development. Peter Drucker writes, “Just as management has become the specific organ of all contemporary institutions and the integrating organ of our society of organizations, so innovation and entrepreneurship have to become an integral life-sustaining activity in our organizations, our economy, and our society”. He further says that the emergence of a truly entrepreneurial economy is the most significant and hopeful event that have occurred in recent economic and social history.

4. **Creation of Employment Opportunities:** Entrepreneurs play a significant role in generation of employment opportunities by establishing new units in manufacturing, trading and service sectors, laying emphasis on small scale industries, utilizing the surplus labour force in varied industrial and/or service activities, upholding self-employment as a core objective. Entrepreneur integrates resources and technologies into profitable business ventures and creates job opportunities.
5. **Increase Productivity with Modern Production System:** Play an important role in raising productivity. John Keudrick writes, “Higher productivity is chiefly a matter of improving production techniques, and this task is the entrepreneurial function par excellence”. Two keys to higher productivity are research and development and investment in new plant and machinery. But there is a close link between R & D and investment programmes, with a higher entrepreneurial input into both”.  
  
George Gilder in The Spirit of Enterprise said that: “Entrepreneurs are innovators who evoke demand’. They are makers of markets, creators of capital, and developers of opportunity and producers of new technology. They seek the unique product, the marketing breakthrough, the startling new, feature or the novel design. They change technical frontiers and reshape public desires. They create wealth and employment. They take exception to the received view that companies should be market led. They lead the market”.
6. **Export Promotion and Import Substitution:** Liberalization, privatization and globalization [LPG] has opened the arena of export promotion and import substitution to entrepreneurs by establishing industries producing import substitution goods, establish new industries, especially for export, products, exploration of new global markets, earning foreign exchange reserves, utilizing the available productive resources, achieving self-reliance in production of as many goods as possible, entrepreneur, are playing a pivot role in export promotion and import substitution.
7. **Entrepreneur Plays a Role of Catalytic Agent:** As Joseph Schumpeter says, entrepreneur’s task is “creative destruction”. He destroys to create new things. He changes and transmutes values. He searches change and responds to it. He is a change creator. Ralph Harwitz writes in his book Realities of Profitability’, “The entrepreneur makes a happening, wants piece of action, is the growth man. Without him there is no happening, no action, and no growth”.
8. **Augmenting and Meeting Local Demands:** Entrepreneurs also play a significant role in augmenting local demands and meeting them satisfactorily. Towards this entrepreneurs focus their attention to manufacture service through indigenous technology, skill, resources and experiences.



**Figure 4.4 : Role of Entrepreneurs**

9. **Reinventing Entrepreneurial Venture:** An entrepreneur work to reinvent his entrepreneurial venture. He knows that change and innovation is good for his organization. Paul Wilken observes, “Entrepreneurship is a discontinuous phenomenon, appearing to initiate changes in the production process and then disappearing until it reappears to initiate another change”. Zoltan Acs writes, “Entrepreneurs stir up the waters of competition in the market place. They are ‘agents of change in a market economy’”.

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## 4.5 Entrepreneur vs. Entrepreneurship

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The term entrepreneur is often used interchangeably with “entrepreneurship”. But conceptually, they are different yet they are just like the two sides of a coin. Entrepreneur and entrepreneurship are co-related. The relationship between entrepreneur and entrepreneurship is given in the table 4.1.

**Table 4.1 Relationship between Entrepreneur and Entrepreneurship**

<b>Entrepreneur</b>	<b>Entrepreneurship</b>
<b>Refers to a person</b>	<b>Refers to a Process / Activity / Action</b>
Leader	Leadership
Planner	Planning
Programmer	Action
Motivator	Motivation
Risk-taker	Risk-taking
Creator	Creativity
Visionary	Vision
Innovator	Innovation
Technologist	Technology
Initiator	Initiative
Organizer	Organization
Decision-maker	Decision Making
Administrator	Administration
Adopter	Adopting
Delegator	Delegating
Ethical	Ethics
Goal Setter	Goal Setting
Imagination	Imagining
Skilled	Skills
Transformer	Transformation
Wealth Creator	Wealth Creation
Economic Developer	Economic Development
Promoter	Promotion

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## 4.6 Entrepreneurial Failure

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Getting success in entrepreneurial venture is not the result of a single person’s efforts. There is always a team involved in it. The team is made up of other group of people like investors, working partners, employees, vendors, creditors, customers and clients. All play an important part in the success or failure of the enterprise. Although other people are involved, but there is a tendency to believe that they play less important roles and at the end of the day, success or failure of the enterprise will be largely depend on the entrepreneur’s vision, skill, achievement level.

Many entrepreneurs fail due to several barriers and problems. Karl H. Vasper has identified following reasons:

- ❖ Lack of a viable concept.
- ❖ Lack of market knowledge
- ❖ Lack of technical skills.
- ❖ Lack of seed capital.
- ❖ Lack of business know-how.
- ❖ Competency-lack of motivation.
- ❖ Social stigma.
- ❖ Legal constraints and regulations.
- ❖ Monopoly and protectionism.
- ❖ Inhibitions due to patents

Because of limited productive resources, high levels of uncertainty and risk, in experienced management personnel, employees, new ventures suffer fear mortality much higher than the, well established firms. There are a number of reasons for failure of a new venture and these are discussed below:

1. **Inadequate Management of Finance:** Due to a lot of operational issues sometimes, financial management is likely to get neglected. Sometimes entrepreneurs are more concerned about raising the fund, they are less concerned about utilization of funds. Common errors in financial management can be bad receivables management, improper cash management, unproductive investments, and poor budgeting decisions, poor inventory management.
2. **Lack of Professional and Experienced Management Team:** One of the main problems faced by new enterprises in that the management team is usually very new to their role. Due to the lack of professional management the management of process, management of people go in a wrong direction. Even in some rare cases, when the management has some individuals who have led a company in the past, they are now faced with a situation where the company itself has no previous track record. It is a very different kind of situation.
3. **Weak Promotional Efforts:** Entrepreneurial firms are very reluctant to spend on promotional activities. Sometimes entrepreneur thinks that investing in this campaign is not going to give assured returns and the link between the promotional expenditure and the sales is not very easy to establish. This problem is mainly faced by the entrepreneurs who are in manufacturing business and there target segment is the last customer.
4. **Unplanned Rapid Growth:** Unplanned growth is not always a desirable situation. Higher growth will put greater stress on production facilities, manpower, and distribution and working capacity of Venture. These are designed to cater to the rise in volumes up to a limit and to increase the limit and productivity they might need further capital investments. It will lead to a stage of continuous firefighting and ultimately, many things may not keep pace with the growth. Most commonly, the organization may run out of cash.
5. **Shortage Trained or Experienced Manpower:** Shortage of skilled and experienced manpower, shortage of technologist is faced by new ventures. Most people prefer to work with a well-established organization employing hundreds of employees and having a stable track record and experienced manpower has less desire to work with new venture. New ventures are also reluctant to invest in training and development. Lack of experienced and skilled manpower can lead to a general drop

in productivity and quality of output. The absence of quality manpower is particularly felt during a crisis.

6. **Lack of Appropriate Information:** Even in this era of free-flowing information, the quality of information available to large corporations is superior than the information available to new small entrepreneurial ventures. Quality information is always have some cost and small ventures may not be able to invest so much in getting the high-quality information. For example, before entering a new market, the new venture may send some sales persons to interview customers, retailers and wholesalers. On the other hand, the large corporation may here the services of a market research firm and carries out a through investigation of the potentiality of their future product or service and the opportunities of the new market.
7. **Improper Price Management:** Price of the product / service plays a pivot role in marketing the product / service. There are many sophisticated pricing policies a new venture can adopt, taking into account its cost structure, productivity level, nature of demand, and extent of competition. The entrepreneur can introduce new innovative pricing system also for example, Deccan Airways revolutionized airline pricing in India by introducing low-priced air ways. But improper management of price creates a lot problem to entrepreneur as price is directly associated with the volume of sales.
8. **Lack of Strong Business Relationship:** Relationships with vendors, creditor, venture capitalist, customers, and others is a huge advantage to established businesses. A new venture will have to establish new relationships and work hard at strengthening them. Such business linkages help in smooth conduct of business and are invaluable at times of distress. Otherwise conflict between these relations may create a lot problem to the establishing venture.
9. **Less Concerned about Management:** Improper inventory management can lead to tough problems. Production can be halted due to insufficient inventory, whereas excess inventory can lead to wastages and financial loss. In case of perishable goods, high inventory can lead to expiration of stock. Inflated valuation of inventory can give a very wrong picture of the financial position of the firm and this may lead to wrong pricing policy.
10. **Narrow Vision:** A number of small new firms face huge problems on operational issues and these problems can threaten the very existence of the venture at time of start up. In such circumstances, the management of the venture focus on surviving the immediate crisis and resolving the conflict and soon the long-term vision and strategy of the firm are forgotten. If this continues for long, the danger is that long-term plans and strategies are discarded as impractical or irrelevant. Ultimately, the firm acquires a shape very different from what was originally envisaged by the entrepreneur.

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## 4.7 Summary

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An entrepreneur performs many activities from time to time and also simultaneously depending on a complex and combinations of economic, socio-political and other factors in an enterprise. The entrepreneur of the world is the wisest minds who leave an indelible mark in the history of mankind. They make it possible through their action, and not through words. They do things in a completely new way. They think beyond the obvious. They go deeper. They think from different perspectives and angles. There are different types of entrepreneurs. A nascent entrepreneur is an individual who is in the process of starting a new business. A

novice entrepreneur is an individual who has no prior business ownership experience. A habitual entrepreneur is an individual who has prior business ownership experience. A serial entrepreneur is an individual who has sold or closed an original business, established another business, sold or closed that business, established another business, sold or closed that business, and continues this cycle of entrepreneurial behavior. A portfolio entrepreneur is an individual who retains an original business and builds a portfolio of additional businesses.

The entrepreneur is a key in entrepreneurship. His personality is a composite of innovator, risk taker, motivator, planner, a creative problem solver and who makes things happen. Entrepreneurs are made and not born. He is made by his family, environment and education. Because of limited resources, high levels of uncertainty and inexperienced management and employees and many other such reasons, new ventures suffer from a very high rate of failure – much higher than that of larger, well-established firms.

One should remain optimistic that entrepreneurship in India will develop to promote India's economic development on a sound basis, as an integral part of the world economy. The burst of creativity and innovation in emerging technological industries holds tremendous promise for economic development and technological business growth. When talent is linked with technology, people recognize and then push viable ideas and the entrepreneurial process is under way.

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#### **4.8 Self Assessment Questions**

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1. What are the various ways of classifying entrepreneurs?
2. Distinguish between a portfolio entrepreneur and a social entrepreneur.
3. Outline the causes of entrepreneurial failure in detail.
4. Who is an entrepreneur? Explain the various types of entrepreneurs.
5. "An entrepreneur is a catalytic agent in economic development." Explain the role and significance of an entrepreneur in developing economy with reference to above statement.
6. "The entrepreneur is more than a manager. He is an innovator and promoter as well". Explain this statement and describe the various types of entrepreneur.
7. Entrepreneur is a 'Captain of Industry' and 'Economic Leader' of the society. Elucidate.
8. How does an entrepreneur contribute to the economy and the society?
9. Who is Entrepreneur? What are his functions?
10. Narrate the role and significance of an entrepreneur in an economy.
11. What are the functions performed by entrepreneurs? Explain the characteristics of successful entrepreneur.

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