

ENTREPRENEURSHIP THEORIES AND CONCEPTUALIZATION

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Abstract: Although the current popularity of entrepreneurial exploits would tend to make you think that it is a twentieth or twenty first century phenomenon, but it's not like this. Early in 18th century, the French term entrepreneur was first used to describe a “go-between”. Then toward the end of the nineteenth century, the concept of entrepreneurship changed slightly again to distinguish between those who supplied funds and earned interest and those who profited from entrepreneurial abilities. In recent years, entrepreneurship has increasingly become a hot topic to study innovation and other fields from the perspective of entrepreneurship. Entrepreneurship is more than simply “starting a business”. Entrepreneurship is an innovative function. Based on the analysis of relevant theories, this paper enriches the relevant theories of entrepreneurship, and lays a theoretical foundation for exploring the research of entrepreneurship. Different theories of entrepreneurship give us already now a rich background where from to proceed in comparative analysis. A consistent universal theory does not exist in entrepreneurship, but rather it consists of several approaches.

1. INTRODUCTION

The term ‘entrepreneur’ is often used interchangeably with ‘entrepreneurship’. However, conceptually they are different. An entrepreneur is a creator whereas entrepreneurship is the creation. Entrepreneurship is the tendency of a person to organise his own business and run it profitably, exploiting the qualities of leadership, decision making, managerial calibre, etc.

In the early sixteen century, the term was used to refer to army leaders. In the eighteenth century, it represented a dealer who bought and sold goods at uncertain prices. In 1961, Schumpeter used the term ‘innovator’ for entrepreneur. Entrepreneurship is recognized all over the world, in countries such as USA, Germany and Japan and in developing countries like India.

For Scientist, ‘theory’ refers to the relationships between facts. In another words, theory is some ordering principles. There are various theories of entrepreneurship which may be explained from the viewpoints of economists, sociologists and psychologists. During the early part of the twentieth century, entrepreneurship was still believed to be distinct and different from the management of organisations. The final development from the twenty-eth century we’ll look at is Peter Drucker’s contention that entrepreneurship involves maximizing opportunities. Drucker is a well-known and prolific writer on a wide variety of management issues. Drucker proposed that entrepreneurship doesn’t just happen out of the blue but arises in response to what the entrepreneur sees as untapped and undeveloped opportunities.

2. OBJECTIVES

1. To understand the concept of entrepreneurship.
2. To develop entrepreneurial opportunities for potential entrepreneurs and upgrade managerial skills for existing entrepreneurs
3. To promote the development of small and medium enterprises that would encourage self-employment among potential entrepreneurs.
4. To provide, in the rural areas, special programmes designed to stimulate new ventures.

3. RESEARCH METHODOLOGY

Data and information presented in this research paper are conceptual in nature and collected from secondary data such as authentic websites, journals, research papers, e-contents, articles and newspapers to get depth knowledge of international trade. This paper will review the existing literature on entrepreneurship theories and its conceptual framework. It starts with the description of the introduction of entrepreneurship. Then the objectives of entrepreneurship theories will be reviewed. Further analysed the different opinion on emergence of entrepreneurship that help in growing start-ups for young entrepreneurs. And finally, the paper will define the different coordinated and comprehensive theories of entrepreneurship.

4. ENTREPRENEURSHIP THEORIES AND CONCEPTUALIZATION

The concept and theories of entrepreneurship that have evolved over more than two centuries have undergone major changes. A coordinated and comprehensive theory of entrepreneurship is yet to come. Different theories of entrepreneurship have been evolved by different thinkers at different times. It is a continuously evolving process of change. In the Indian context, entrepreneurship has yet another dimension. An entrepreneur may not necessarily be an 'innovator' but an 'imitator' who would copy the technology, products of innovator from other developed regions.

Theories of entrepreneurship are broadly classified into economic, psychological, sociological and cultural theories. The phenomenon of entrepreneurship development has been viewed, explained and interpreted differently by social scientist.

Meanwhile let's try to understand the following theories of entrepreneurship propounded by different eminent social thinkers.

- 1) Innovation Theory of Schumpeter
- 2) Need for Achievement Theory of McClelland
- 3) Leibenstein's X-efficient Theory
- 4) Max Weber's Theory of Entrepreneurial Growth
- 5) Economic theory of Entrepreneurship

4.1. INNOVATION THEORY OF SCHUMPETER

A dynamic theory of entrepreneurship was first advocated by Schumpeter (1949) who considered entrepreneurship as the catalyst that disrupts the stationary circular flow of the economy and sustains the process of development.

Schumpeter introduced a concept of innovation as key factor in entrepreneurship in addition to assuming risks and organising factor of production. He defines entrepreneurship as 'a creative activity'. An innovator who brings new products and services into economy is given the status of entrepreneur. The entrepreneur is viewed as the 'engine of growth'. He sees the opportunity for introducing new products, new markets, and new sources of supply, new forms of industrial organisation or for the development of newly discovered resources.

The concept of innovation and its development embraces five functions:

- i. The introduction of a new product with which consumers are not yet familiar or introduction of a new quality of an existing product,
- ii. The introduction of a new method of production that is not yet tested by experience in the branch of manufacture concerned,
- iii. The opening of a new market is a market on to which the particular branch of manufacturer of the country in question has not yet previously entered ,
- iv. Conquest of a new source of supply of raw material and
- v. The carrying out of the new organisation of the industry.
 - a. Schumpeter is the first major theorist to put the human agent at the centre of the process of the economic development. He is very explicit about the economic function of the entrepreneur. The entrepreneur is the prime mover in economic development, his function, to innovate or to carry out new combinations. Schumpeter makes a distinction between an innovator and an inventor. An inventor discovers new methods and new materials. On the contrary, an innovator is concerned with his technical work of invention whereas an entrepreneur converts the

technical work into economic performance. An innovator is more than an inventor because he does not only originate as the inventor but goes much farther in exploiting the invention commercially.

- b. To Schumpeter entrepreneurs are individuals motivated by a will for power, their special characteristic being an inherent capacity to select correct answers, energy, will and mind to overcome fixed talents of thoughts and a capacity to withstand social opposition. Schumpeter's views are particularly relevant to developing countries where innovations need to be encouraged.

4.2. NEED FOR ACHIEVEMENT THEORY OF MCCLELLAND

According to McClelland the characteristics of entrepreneur has two aspects first doing things in a new and better way and second decision making under uncertainty. He emphasises achievement orientation as most important factor for entrepreneurs. Individuals with high, achievement orientation are not influenced by considerations of money or any other external incentives. Profits and incentives are mainly yardsticks of measurement of success of entrepreneurs with high achievement orientation.

Professor David McClelland, in his book 'The Achieving Society' has propounded a theory based on his research that entrepreneurship ultimately depends on motivation. It is the need for achievement, the sense of doing and getting things done, that promote entrepreneurship. According to him, a person acquires three types of needs as a result of one's life experience. These three needs are:

- Need for Achievement. A drive to excel, advance and grow.
- Need for Power. A drive to dominate or influence others and situations.
- Need for Affiliation. A drive for friendly and closer inter-personal relationships.

The individual with high levels of need achievement is a potential entrepreneur. The specific features of a high achiever (entrepreneur) can be as follows:

- i. They set moderate realistic and attainable goals for them.
- ii. They take calculated risks.
- iii. They prefer situations wherein they can take personal responsibility for solving problems.
- iv. They need concrete feedback on how well they are doing.
- v. Their need for achievement exists not merely for the sake of economic rewards or social recognition rather personal accomplishment is intrinsically more satisfying to them.

4.3. LEIBENSTEIN'S X-EFFICIENCY THEORY

Basically, X-efficiency is the degree of inefficiency in the use of resources within the firm; it measures the extent to which the firm fails to realize its productive potential. For a given set of inputs, productive potential is identified with the point on neoclassical production frontiers. X-efficiency arises either because the firm's resources are used in wrong way or because they are wasted, that is, not used at all. He identifies two main roles for the entrepreneur.

- The first role is input completion, which involves making available inputs that improve the efficiency of existing production methods or facilitate the introduction of new ones. The role of entrepreneur is to improve the flow of information in the market.
- The second role, gap filling, is closely asking to the arbitrage function emphasized by Kirzner. Leibenstein's provides a vivid description of gap filling, visualizing the economy as a net made up of nodes and pathways.

4.4. MAX WEBER'S THEORY OF ENTREPRENEURIAL GROWTH

Max Weber in his theory says religion has a large impact on entrepreneurial development. According to Weber some religions have some basic beliefs to earn and acquire money and some have less of it. He calls them a 'spirit of capitalism' and 'adventurous spirit'. The spirit of capitalism will be generated when mental attitude in society is favourable to capitalism. According to Weber, driving to entrepreneurial energies are generated by the adoption of exogenously-supplied religious beliefs which produce intensive exertion in occupational pursuits, the systematic ordering of means to ends and the accumulation of assets. His theory suggests the

belief systems of Hinduism, Buddhism and Islam do not encourage entrepreneurship. Max Weber's explains his theory with these three aspects:

- i. Religious beliefs.
- ii. Specific value orientation.
- iii. Entrepreneurial growth.

Many thinkers have accepted the Weber's analysis of linkage between religious beliefs and entrepreneurial growth. But this view is not accepted universally. Samuelson criticised Weber's view on the ground that capitalism also developed in those societies where protestant ethic was 'not prevalent'. It can be concluded in the words of Carolls that "ethical values have some effect on entrepreneurial growth but to consider them all in all would be unrealistic."

4.5. ECONOMIC THEORY OF ENTREPRENEURSHIP

Many economists revealed that entrepreneurship and economic growth will take place in those circumstances where particular economic conditions are in favour of business environment. The main advocates of this theory were Papanek and Harris. According to them economic incentives are the main forces for entrepreneurial activities in any country. There are a lot of economic factors which promote or demote entrepreneurship in a country. These factors are:

- i. The availability of bank credit.
- ii. High capital formation with a good flow of savings and investments.
- iii. Supply for loanable funds with a lower rate of interest.
- iv. Increased demand for consumer goods and services.
- v. Availability of productive resources.
- vi. Efficient economic policies.
- vii. Communication and transportation facilities.

5. CONCLUSION

This paper deals with the multi-dimensional concept of entrepreneurship wherein the different theories of entrepreneurship have been discussed in detail. The most important was the Schumpeter's theory of innovation wherein he emphasise the importance of innovation in entrepreneurship. The second important theory of entrepreneurship is written by McClelland as a function of achievement that is doing things in a better way and taking critical decisions in a new enterprise. Weber has touched upon the religious beliefs system which is a part of culture and which has a great influence in determining the individual's behaviour in every aspect of his life.

As observed, every theorist has looked at the entrepreneur and entrepreneurship on the basis of his perception, and therefore, can, at best, provide only a limited view of entrepreneurial phenomenon. As a conclusion, it can be said that entrepreneurship, is the outcome of a complex and varying combinations of socio-economic, psychological and other factors. A realistic perspective should take them together. It is the integration of external environment, dream, ambition, passion, achievement, motivation, commitment, integrity, zeal, honesty, sincerity, ability and hard work which largely determine whether an individual become an entrepreneur or not.

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