
UNIT 1 AN INTRODUCTION TO ENTREPRENEURSHIP

Structure

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Concept and Definition of Entrepreneurship
- 1.3 Evolution of Entrepreneurship in India
- 1.4 Determinants of Entrepreneurship
- 1.5 Entrepreneurship and Economic Development
- 1.6 Models of Entrepreneurship
- 1.7 Theories of Entrepreneurship
- 1.8 Let Us Sum Up
- 1.9 Key words
- 1.10 Answers to Check Your Progress
- 1.11 Terminal Questions

1.0 OBJECTIVES

After studying this unit, you should be able to:

- define entrepreneurship and discuss its evolution;
- identify entrepreneurial mindset and various factors that drive individuals to take up entrepreneurial journey;
- classify various entrepreneurial entities into entrepreneurship models;
- explain linkages between growth of entrepreneurship and economic development and sustainability;
- explain the theories of entrepreneurship; and
- apply the above concepts in early stage decision making situation of a start-up with the help of Case Study.

1.1 INTRODUCTION

Entrepreneurship, as a word, has caught the imagination of a generation who has thrived on fables of how visionaries like Thomas Alva Edison, Henry Ford, Walt Disney, Bill Gates, Dhirubhai Ambani, Jamsetji Tata, Ardeshir & Pirojsha Godrej .etc revolutionised the world with their enterprising ideas. In recent years, with the emergence of technological innovations and the usage of the same to set forth significant change in how we perceive various problems, individuals like Steve Jobs, Elon Musk, Jeff Bezos, etc., to name a few, managed to identify business opportunities in new radical ideas.

In its broadest sense, traces of entrepreneurship dates back to the profit-minded traders who had traversed the silk route, and various market places

around the world seeking profits in exchange for goods and services. So, does it mean that being a business owner would make someone an entrepreneur? The answer is far more complicated than it seems. While the popular perception drives home the notion that an entrepreneur is someone who sets up a business, by taking financial risks, in the hope for profits. Many economists would disagree and emphasise that similar to terms like “strategy” and “business model”, entrepreneurship is *elastic*.

According to Howard H. Stevenson – the godfather of entrepreneurial studies at Harvard Business School – *entrepreneurship is the pursuit of opportunities beyond resources controlled*. This definition focuses on entrepreneurship opportunities which are the most important aspect of entrepreneurship. The entrepreneurship opportunities aim at manufacturing of goods and services or trade for the creation of value. This definition escapes the limiting way of portraying entrepreneurship as the process of creating and running a business venture with associated risks to make a profit. This definition misses out on the entrepreneurial action which stems out of the union of profitable opportunities and enterprising individuals.

Entrepreneurs relentlessly focus on making tangible progress in a limited period as observed by their sense of urgency, contrary to established organisations. They look out for entrepreneurial opportunities, which are novel in one or more of four ways. Such opportunities may involve following activities:

- i) spearheading wholly innovative ideas;
- ii) creating more excellent and affordable versions of existing products;
- iii) fabricating a new business model; and
- iv) creation of a new market for an existing product – targeting of an existing product to a new set of customers.

Moreover, entrepreneurs mobilise resources – human, social, and financial capital, beyond their control, to act on what they believe is an opportunity. This definition focuses on entrepreneurial actions which aims at creation of new products or processes or services or entering into new markets. In order to initiate action on the above newness, the entrepreneur may create new organisation or infuse the new system in the existing organisation.

The high uncertainty in pursuing (sensing the environment, indentifying business opportunities and selecting one or few after evaluating) ideas entails risks, for which entrepreneurs must use their judgement about whether to act or not. Thus, the vital essence in understanding entrepreneurial action lies in the analysis of two activities. The first is assessing the uncertainties associated with the venture and the second is the willingness of the individual to bear those uncertainties, including the various theories, determinants, and models of entrepreneurship. In this unit, you will learn about entrepreneurship, its evolution, process, derterminants, models and theories of entrepreneurship. You will also discuss why entrepreneurship is gaining paramount importance all across the globe. How does it contribute to the socio-economic

development of a nation. Let us now start our discussion with the evolution of entrepreneurship.

1.2 CONCEPT AND DEFINITION OF ENTREPRENEURSHIP

Just as many other economic concepts, the terms entrepreneurship and entrepreneur are subject to debate and do not have a single comprehensive definition. Over two centuries, they have been defined distinctly by various authorities and used in different senses in comparison to the one in which they are used today.

Although the recent acclaim of the entrepreneurial attainments would tend to show it as a twentieth or twenty-first-century phenomenon, the word entrepreneur is derived from the French word “*entreprendre*”, which means, “to undertake”. Richard Cantillon, an Irish-French economist, is regarded as the originator of the word entrepreneur in his work dating back to the late seventeenth and early eighteenth century. **He considered an entrepreneur to be a risk-taker who purposefully allocates resources and takes an active role in pursuing opportunities to maximise the profits.**

Late in the eighteenth century, J. B. Say, another Frenchman, extended the definition and referred to an entrepreneur as an organiser of a business firm. Besides risk-taking, functions such as coordination, organisation, and supervision were highlighted. The nineteenth-century marked a prolific time for entrepreneurial activities as industrial revolution augured continual inventions and innovations. In the later part of the nineteenth century, the definitions changed moderately to differentiate between suppliers of resources who earned interest and those who benefited from the entrepreneurial activities.

The consistency in the close tie between entrepreneurship and economics has been emphasised, over the years, by noteworthy economists. **In the mid-1930s, Joseph Schumpeter defined the concept of entrepreneurship from an economics point of view.** He defined it as a management style where an individual pursues an opportunity regardless of the availability of the resources in hand. Schumpeter proposed that the entrepreneurship involved creative destruction, which is a process wherein existing products, business, processes, and ideas are substituted with better ones. According to him, **the entrepreneurs were at the forefront of bringing about a change through “creative destruction” and further highlighted the essential role “innovation” plays in entrepreneurship.**

In the twentieth century, Peter Drucker, a well-known writer on management issues, contended that entrepreneurship involves maximising opportunities – entrepreneurs should identify and act on underdeveloped and untapped opportunities.

In modern times, entrepreneurs are closely associated as a harbinger of change. An enterprising action not only comprises of the ability to assess risks in new ventures but to manage them and mobilise resources into

profitability. The definition, *Entrepreneurship is a pursuit of opportunities beyond resources controlled* – as defined by the Howard H. Stevenson, who is notable academician of entrepreneurial studies at Harvard Business School – encompasses various facets of an entrepreneurial endeavour. They are the relentless pursuit of making tangible progress in a shorter duration to attract investors; employing novel business models for innovative products and services; always looking for additional resources beyond those which are already in possession to further organisational development. Chandler (1990:8) defines entrepreneurship as dealing with uncertainty, making a distinction between risk, which can be calculated, and uncertainty which can't be overcome.

After going through the definitions given by the experts, it can be summarised that “Entrepreneurship is a process of creating an enterprise (both for profit and not for profit) by sensing the environment, identifying business opportunity and mobilising resources which are available and bearing the risks thereof with the innovative interventions.” We cannot confine entrepreneurship into some set of restricted activities. It is rather a mindset.

Based on the definitions discussed above the following are the features of entrepreneurship:

- creation of a new organisation or infusion of newness in existing organisation’
- it involves dealing with risks and uncertainties,
- it creates value,
- it generates and sustains new ideas, process and system,
- it involves manufacturing, trading and marketing of goods and services,
- it involves management activities, and
- it creates employment.

1.3 EVOLUTION OF ENTREPRENEURSHIP IN INDIA

History of entrepreneurship in India is as early as “Rigveda”. Rigveda says that metal handicraft existed in the society. Craftsmanship was encouraged, promoted and protected. This indicates that entrepreneurship in India is as old as the human civilisation. Traces of entrepreneurship dates back to the profit-minded traders who had traversed the silk route, and various market places around the world seeking profits in exchange for goods and services. Efficient artisans with their unique skill to make various useful articles are existing since then. This Indian artisan industries were flourishing in those days as the rulers recognised their importance and protected their skill and promoted their businesses. However, during pre-independence era (18th century), this industry declined because of various reasons such as dissolution of royal courts, indifference of British colonial government for Indian handicrafts, imposing heavy duties on the imports of Indian goods in England, low

priced commodities offered by the British (enjoying the economies of large scale) gave tough competition to the products of Indian handicraft, changing taste and preferences of the Indian consumers (preference to western culture) etc.

However, India could see some entrepreneurial growth during the colonial period. Few communities triggered manufacturing entrepreneurship during the time. Since then the face of entrepreneurship is changing in India. To further understand the evolution of entrepreneurship, you need to know how entrepreneurship is defined by various experts and how it has emerged as a subject of study.

1.4 DETERMINANTS OF ENTREPRENEURSHIP

Development of entrepreneurs and culture of entrepreneurship is driven by multiple factors which can be divided into : (a) individual factors and (b) environmental factors. You may see figure 1.0 to understand the determinants at a glance .

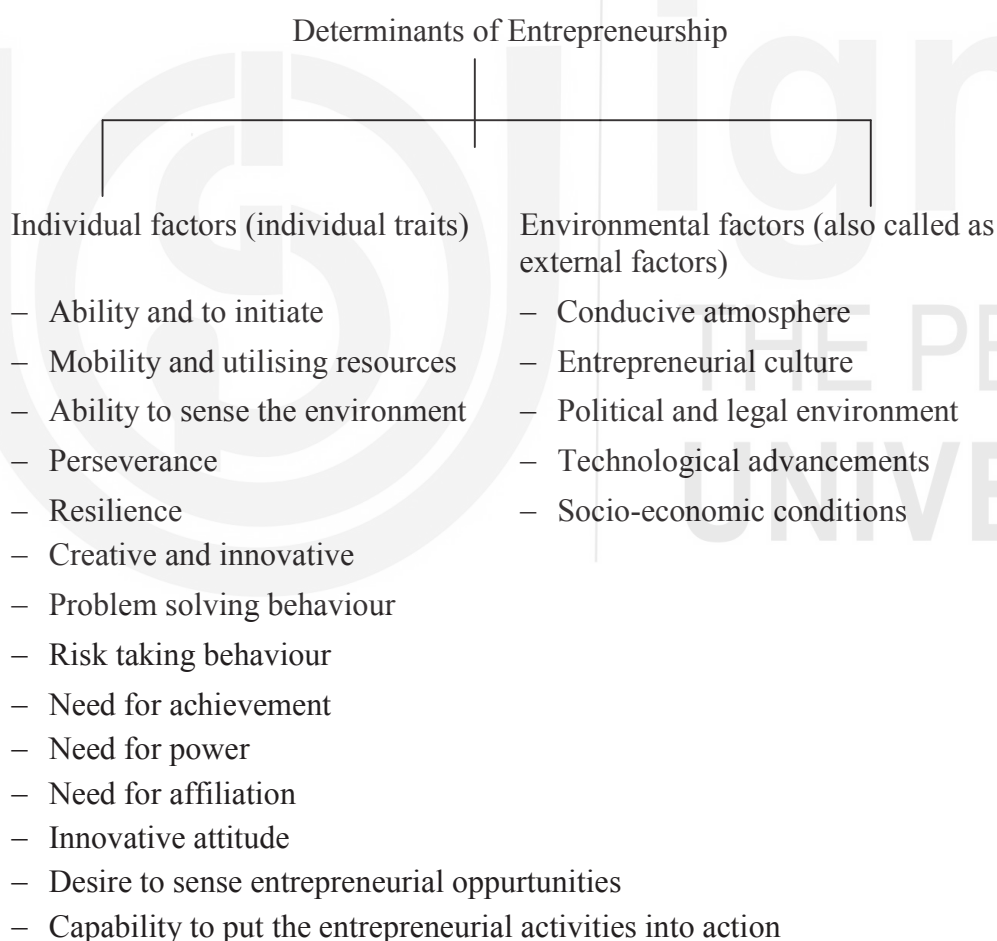


Figure 1.1 Determinants of Entrepreneurship

Individual/Personal factors : These are the traits of individuals which leads them to think and act entrepreneurial. Personal factors comprise personal initiatives of individuals who like to do things before some body else translates that idea into a running enterprise. Personal factors also include ability of individuals to identify and utilise resources in wake of

opportunities. These are lot of people who can **sense opportunities** and it is usually challenging to translate those ideas into **execution**. Another individual trait is **perseverance**, which influences culture of entrepreneurship, where people like to take up challenging tasks, assignments or projects and they are less likely to be complacent about their prevailing status quo. Another important individual factor is **problem solving behaviour** and quest for solutions in a new and better way. One can find lot of entrepreneurs in India with varying degree of success who got into entrepreneurship triggered by this problem solving behaviour combined with few other individual traits mentioned above. Hence they also need access to resources including funds at different stages of their entrepreneurial journey. They should have **art of persuasion** to earn investor patronisation. However, investors or partners demand **self confidence** of the entrepreneur or customers and suppliers demand confidence in the stability of the entrepreneurial set up or enterprise. Hence ability of individuals to be **confident of their decisions**, take **informed decisions** and being **self aware** is a desirable traits to audit a good entrepreneurial culture. Above all individual **risk taking behaviour** is what it takes to get into innovative entrepreneurial space.

Environmental factors: They are also called as external factors. Environment of a place is essential ingredient of entrepreneurial eco-system which provides **conducive atmosphere** or otherwise that affects growth of entrepreneurial culture positively or negatively. It includes **technological advances, political environment, legal system, economic and social conditions, business circumstances**, etc. Political stability in a region, for example, is important to smooth economic activity which includes catalysing entrepreneurs to fructify their aspirations. **Policy support** for a market driven competitive market encourages new player to enter markets as well as brushes off complacency among the incumbents. For example during last couple of decades due to increased globalisation and advances in technology, innumerable technology ventures have come up globally including India. The conducive atmosphere may be created by the availability of finance by the financial institutions, supply chain network, ancillary industry, entrepreneurial culture etc.

Hence, it is the individual traits and external influences that shape entrepreneurship and its growth in a place. The entrepreneurship facilitates in the accomplishment of goals envisaged by the individual, the organisation and the society.

Entrepreneurship Development will take place in the society where individual traits are supported by exciting and encouraging external factors.

1.5 ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT INCLUDING INCLUSIVE GROWTH

Entrepreneurship has an important role in the economic development and growth of a state. It plays a major role **in introduction of new products, technology advances, technology application and catalyses market**

dynamicstowards growth. Entrepreneurs are relatively better positioned to try newer ideas, processes and business model changes versus established incumbents because their size and **agile capabilities**. Hence they can take **higher risk** and **experiments** with new solutions. Hence entrepreneurs **explore, analyze and smell opportunities** in the environment and **create economic entities** which strengthen **prospects of economic growth**. In the process, lot of other **ancillary entities** also develop which cater to its requirements for human resource, raw material, and various other services necessary to make these entities run their operations.

As entrepreneurship scales its roots in a place, it inspires more to join this path and a progressive **entrepreneurial culture** develops like silicon valley in US, IT hubs in Bangluru, Hyderabad etc. in India Therefore, there is **multiplier effect**. This results in a process of upward change which can positively affect **overall production of goods, services and consumption**. This translates into **better real per capita income** of a country rises and, hence, **development of the state**. More entrepreneurial activity means **higher levels of employment possibilities**. Indian states with higher level of entrepreneurial activity have demonstrated relatively higher levels of economic development. Thus, entrepreneurial development leadsto economic development, encourage self employment and generation of income, balance development of an economy, important entity of supply chain activities, important entity of supply chain activities, creation of self sufficient village, rural entrepreneurship. Atma Nirbhar Bharat may play significant role in creation of innovativeness, facillitatwes new ways of business operations. The export-import firms may facilitates in earning foreign exchange.

As per economic theories, economic growth cycles can be stretched through innovation and entrepreneurs are anchors of innovation eco-system. Hence, entrepreneurs according to these theorists plays a key role in sustainable economic growth. Also sustainable economic growth is also dependent on overall social welfare and entrepreneurs many times apart from state, NGOs etc., play a crucial role particularly in the form of social entrepreneurship.

To sum it up, role of entrepreneurship in economic development of a nation can be discussed as follows:

- **Creation and distribution of wealth:**they mobilise resources which otherwise would remain idle, earn money and distribute it to society in the form of rent such as interest to capital (Investor's rent) Salaries and wages to human resources, rent to other inputs of factors of production
- **Employment generation:** entrepreneurs while establishing and managing their enterprises generate and provide employment to people in the society.
- **Balanced regional growth and development:** Entrepreneurs locate their businesses even in remote and less developed area this leads to growth in industry and other businesses which further brings improvement and development in infrastructure such as rail, road, airports, electricity, water, schools, hospitals holds etc. That is why entrepreneurship is called as growth accelerator.

- **Contribution in GDP:** Enterprises, especially MSMES contributes significantly in the GDP of India. More business units use more resources, resultantly National Income, and per capita income also increases.
- **Increase in standard of living:** by bringing in innovation entrepreneurs make huge contribution in improving the standard of living. For example, mobile phone services are so less that each and every household, irrespective of their economic status, is using mobile phone services now a days which was affordable nearly two decades ago.
- **Increase in international trade:** In the want of getting access to the bigger market, enterprises cross boundaries when they feel that domestic market is covered and saturated and they want to expand further. They make their reach in foreign market. This increases the export of the country.

Check Your Progress A

- 1) Distinguish between Ambitious Innovators and Adaptive innovators.
- 2) Fill in the blanks:
 - i) assigned a crucial role of innovation to the entrepreneur.
 - ii) develop enterprises in the fields of healthcare, mass education particularly for below the poverty line populations, civil rights, climate, animal life etc.
 - iii) believes in high risk taking and experimentation.
 - iv) are the one who are ready to adopt successful innovations inaugurated by innovating entrepreneurs.
 - v) Entrepreneurs undertakes and handles economic uncertainty involved in an enterprise.

1.6 MODELS OF ENTREPRENEURSHIP

Discussion of various theories explaining drives, influences or factors, internal or external to the entrepreneurs, can be argued further in terms of various entrepreneurship models as a consequence. Some of the important models of entrepreneurs are as follows:

Ambitious Innovators

This model of entrepreneurship **believes in high risk taking, experimentation and tolerance to failures.** The entrepreneurs of this category believe in solutions of radical nature from the current solutions. They could be individual entrepreneurs or representatives of corporations where there is conducive climate for trying new solutions and failures in trying new things are not usually penalised. Ambitious innovators are proponents of exploration and creation. Entrepreneur's may later dilute the

ownership or sell their venture outright and engagement may continue sometimes even after sell out. There are external positive effects created by these ventures which could stretch to economy at a bigger scale and generate employment opportunities. Many technology ventures in last few decades like Google, Facebook, Oyo, Coursera etc., are examples of this type. Some times ambitious innovators may even develop new sectors and later on many other entrepreneurs may bring incremental innovation on top of earlier innovation led new enterprise.

Adaptive Innovators

This type of entrepreneurship is driven by relatively lesser level of risk taking appetite and follow incremental innovation approach. Sounds complicated to you? Wait, let me explain incremental innovation to you first. Incremental innovation, is a series of small improvements to the products already existing in the market. Adaptive innovators do not take huge risk so they follow incremental innovation approach where they do not introduce or alter an entirely new solution (business offerings) rather they imitate innovative entrepreneurs by making small improvements in the existing products or business offerings (products or services). It could be also influenced by amount of resources available or accessible partnerships, These entrepreneurs usually took the path of existing entrepreneurs with some tweaks or by incrementally innovating. They imitate innovative entrepreneurs because the environment in which they operate is such that it does not permit them to have creative and innovative ideas on their own. Adaptive innovators are more common in places where entrepreneurial ecosystem is relatively less mature or less conducive for initiating innovative ideas. Many bigger firms also sometimes cultivate capabilities in an entrepreneurial framework (own or in partnership) or nurture new ventures which are meant to work continuously and innovate incrementally keeping pipeline line new rollouts ready for their targeted markets. From an economic stand point these innovations in essence are replications or tweaks of the more radical innovations made by others. Other explanation of these incremental efforts are many times compulsions for sustainability and expansion. Even these innovator entrepreneurs also need to continuously explore and experiment. While several entrepreneurs do this by understanding the market opportunities created by the innovations of other entrepreneurs. Some entrepreneurs develop their footprint by rolling out distinct new functionalities or sometimes process innovations. The number of these type of enterprises is relative larger than the ambitious innovators. These enterprises can potentially create larger economic impact and scope for employability. The impact could involve more competition, efficiency and rivalry in the specific sector.

Solo Self Employed

This constitutes the largest group of entrepreneurs who are working on their own and normally contributes maximum in terms of their numbers. These companies have the potential to bring higher agility to their client firms usually a higher tier firm in case of Business to Business (B2B) engagements. These solo self-employed outfits facilitate growth of their partner companies

by adding to the agile capability. However, in spite of solo self-employed may outnumber other types of entrepreneurship models. They focus on self driven entrepreneurial activities. Therefore, they may not contribute greatly in employment generation. At times, this model is a recourse for people who find it compulsive to do something on their own because other options are limited.

Managerial Employers

This constitutes rest of employer entrepreneurs who are not ambitious with respect to firm growth. Their prime focus is sustainability or business continuity. Mostly their efforts are focussed towards cost efficiency through process improvements or innovations. Many times such companies may acquire a company with radical innovation capability to sustain. Many of these enterprises follow adaptive innovation or incremental innovation, exploration of new resources, new partners, optimum resource management and similar efforts to maintain their growth and scale. Their role in overall national growth figures of states including India is dependable and important.

Social Entrepreneur

Social entrepreneurs are focused on societal concerns including ecological challenges. Their major focus is to solve community based problems. Social entrepreneurs take risk and make efforts to create positive changes in the society. They start business for the greater social good and not only for profits. They may develop enterprises in the fields of healthcare, mass education particularly for below the poverty line populations, civil rights, climate, animal life etc. Besides other sector. In the passion of an entrepreneur, they follow poverty alleviation goals, best strategies and strive to transcend traditional methods and innovate.

1.7 THEORIES OF ENTREPRENEURSHIP

There are multiple theories which form basis of conceptual domain of entrepreneurship. These theories have origins in economics, psychology, sociology, anthropology, and management. Prominent among these theories are as follows:

- 1) Psychological Entrepreneurship Theory
- 2) Economic Entrepreneurship Theory
- 3) Opportunity-Based Entrepreneurship Theory
- 4) Sociological Entrepreneurship Theory
- 5) Anthropological Entrepreneurship Theory
- 6) Resource-Based Entrepreneurship Theory

1) Psychological Entrepreneurship Theories

In this theory, the focus is on individual personality traits. Advocates of this theory believe that people with certain traits are more likely to become an entrepreneur. Need for achievement and control leads to inclination for

innovativeness, risk taking and acceptance of initial failures in experimentation. According to traits theorists, traits necessary for entrepreneurial capability are inborn. Personality traits are defined as sustained qualities that an individual displays in most situations (Coon, 2004). Entrepreneurs are mostly sensing opportunities, relatively creative and have appetite for faster learning of management skills. Locus of Control explores individual's perception about the reasons behind events of life (Rotter, 1966). Entrepreneurial belief about the reasons of success is also explained based on concept of locus of control orientation and varied perceptions of entrepreneurs about the reasons of their success. The success may be due to internal efforts called internal locus of control orientation or some external support termed as external locus of control orientation. However, it has been found that business owners have a slightly higher internal locus of control than other populations. Individuals want to achieve more and succeed (McClelland, 1961). Achievement theory underlines the need to achieve as the underlying motivation for initiatives and there are evidences proving linkages between achievement need and career decision favouring entrepreneurship. (Johnson, 1990).

Many experts believe in Psychological theory of entrepreneurship which stresses on individual personality traits. They believe that because of these traits, entrepreneurs emerge. Three of the most popular psychological theories of entrepreneurship are given below:

- McClelland's theory
- Rotter Locus of control theory
- Action regulation theory

David McClelland theory says that entrepreneurs are guided and motivated by three important needs viz, need for affiliation, need for power and need for achievement. These three needs are the greatest motivators and influencers.

Rotter's locus of control theory (formulated by Julian Rotter in 1954) believes that people are guided by their perceived locus of control amongst individuals. Locus of control may be internal, called as internal locus of control or it can be created through external support, termed as external locus of control. Entrepreneurs are found to be guided mainly by Internal locus of control. You must be wondering what is internal and external locus of control. Let me explain it to you. People with Internal locus of control believe that they can make things happen by their actions i.e., they are capable of doing anything or solving any problem, whereas people with high external locus of control, believe that the happening in life is beyond their control and these happenings occur because of external factors such as fate, change etc.

Michael Frese formulated **action regulation theory**. In this theory it is believed that entrepreneurship is related to planning. An individual with planning behaviour or attitude is more likely to be successful. Cognitive ability is very crucial for entrepreneurs, according to this theory.

2) Economic Entrepreneurship Theories

Economic theories of entrepreneurship can be divided into three different time periods: (i) Classical (ii) Neo-classical and (iii) Austrian market process. Let us quickly discuss the essence of these theories.

i) **Classical Theory of Entrepreneurship:**

Advocates of classical theory believed that role of entrepreneur is restricted to production and distribution of market goods in a competitive market place. There are two noteworthy classical theories of entrepreneurship

- a) Richard Cartillon Theory (1755)
- b) Innovation theory by Schumpeter

a) **Ricard Cartillon Theory:** Ricard Cantillon was an Irish-French economist. He is regarded as the originator of the word entrepreneur in his work during late seventeenth and early eighteenth century. He advocated that entrepreneur is a risk taker who conducts all exchanges (resource allocation, and taking an active role in pursuing opportunities to maximise his profit). He believed that entrepreneurs are not innovators as they cannot change the demand and supply trends in the market. They can just perceive the changes and are intelligent enough to maximise profits and have willingness to take risk.

b) **Innovation theory by Schumpeter:** Innovation theory is considered to be one of the most important economic theories of entrepreneurship. This theory was propounded by Joseph Schumpeter.

Schumpeter underlined the key role of entrepreneurs in bringing innovation by engaging with different actors of an economic eco-system. His ideas on role of entrepreneurs in sustaining economic wellbeing has been quite influential and followed by many nations. His innovation theory is a popular theory of entrepreneurship which is used across countries. Lot of subsequent innovation models are built around his concept of entrepreneur as the anchor of innovation eco-system. **Schumpeter stresses that entrepreneurial creativity is major driver of an entrepreneur's path of specific domain.** Innovation can happen through multiple ways :

- New distinct product or service
- New distinct process to produce product or service
- Address a different audience or market
- Exploring successfully a new resource input in the production process
- New business model or radically a new organisation through transformation with newer capabilities.

To sum it up, we can say that innovation can be in the product, process or in the services of the market offerings.

ii) **Neo-classical theory of entrepreneurship**

Neo Classical theorists proposed that the role of exchange in an economic engagement along with diminishing marginal utility creates possibilities for entrepreneurial role (Murphy, Liao &Welsch, 2006).

iii) Austrian Market process theory of entrepreneurship

This theory focuses on entrepreneurs actions based on their information understanding and knowledge regarding the economy. Advocates of this theory believe that entrepreneurs responds to the changes in the dynamic market to make profits. Their response to the changing market is based on their ability to understand the dynamics of the market. They do product research and development and bring technological innovations to obtain profits. Profit seeking entrepreneurs constantly promote the evolution of economic structure.

3) Opportunity Based Entrepreneurship Theory

The opportunity-based theory gives a stretched space for researchers to explain the becoming of an entrepreneur and its determinants. Peter Druker (1985) argues that entrepreneurs most likely seize the opportunities arising from changes around us with an economic prospect. Entrepreneurs keep looking for new possibilities and problems which can be addressed through a new or better solution than the existing solution. After identification of any opportunity, entrepreneur responds with a solution depending on access to the resources and capabilities (Stevenson, 1990).

Access to relevant resources directly or through partners in business are essential to accomplish key activities of business which are fundamental to achieve entrepreneurial business goals in context of opportunities identified and responses designed by the entrepreneur (Alvarez & Busenitz, 2001). The key activities could be operation processes, channel requirements or any specific relational activities envisaged by the entrepreneur to differentiate products or services for sustained growth and performance.

4) Sociological Entrepreneurship Theory

There are some major social factors which trigger entrepreneurship opportunities (Reynolds, 1991). Social network play a major role as trigger as well as facilitate during various stages of entrepreneurial lifecycle. The underlined idea is for building social relationships which enhance trust. The entrepreneur can succeed more from cultivating and maintaining trust with the intended audience of the entrepreneurial activity. Another factor which reinforces trust through perceived non-opportunism as audience over time understand the intention behind actions. This understanding further strengthens with more and more experience by the users of goods or services. Individual; sociological lineage is also an important determinant of entrepreneurship. One more dimension is based on play of environmental factor called **population ecology like the political influences prevalent and influences of all kinds of business stakeholders e.g., competitors, suppliers, customers etc.** In last several years there is a huge push for startups in India from the government facilitated through various policy initiatives. For example, Startup India, Make-in-India etc. Also lot of investment from start up investors is chasing good ideas for funding support. Many states and large firms in India have worked on setting up incubation and accelerator facilities.

5) Anthropological Entrepreneurship Theory

Anthropologists emphasise role of culture like customs, origin, and beliefs of a community. This theory can explain prevalence of orientation towards business, picking a specific type of professional career etc., among certain communities. **We have seen in India, certain geographic belts with specific culture , one can find people opting career in defense forces, or setting up businesses or commerce orientation or towards art, music etc.** The focus is on the cultural entrepreneurship model. Culture is a function of multiple dimensions including socio-economic, political and ecological factors which further influences attitude and subsequent intention for entrepreneurial choices. (Shane 1994).

6) Resource Based Entrepreneurship Theory

The resource based theory underlines role of various types of resources critical to success of entrepreneurial journey (Aldrich, 1999). Ability to mobilize necessary resources enables entrepreneurs tap opportunities and find solutions of problems (Davidson & Honing, 2003). The resource need depends on type of business model adopted by the entrepreneur. Asset heavy firms may need more financial resources whereas asset light initiatives may need better partnerships or human resources. To understand entrepreneurship model you may recall entrepreneurship model explained earlier in this unit (section 1.3). For example, an entrepreneur in the space of reverse logistics, partnering with e-commerce platforms like amazon.in or flipkart.com, may need more financial resources if it focuses on disposal of returned or rejected goods. Moreover, it may need operational excellence or efficient services if it focuses on returned goods which are sent back to e-commerce platform sellers. However, there is sufficient evidence to show that growth of entrepreneurs is positively associated with access to financial resources (Blanchflower et al, 2001, Clausen, 2006). There are studies also to show that in many situations, entrepreneurs, in early stages of development, may not depend necessarily on financial resources accessible (Hurst & Lusardi, 2004). Also among other resources, Social Network Theory give importance to network or social network resources which then entrepreneurs are able to translate into instruments of effective market penetration or competitive collaboration which lead to sustainable entrepreneurial journey (Clausen, 2006). These theorists argue that entrepreneurs with sufficient network access are able to better mobilise various other resources also like access to reliable supplies or penetration into new markets. Literature on this theory shows that stronger social ties to resource providers facilitate the acquisition of resources and enhance the probability of opportunity exploitation (Aldrich & Zimmers, 1986).

Dear Learner, now you can actually recall and summarise the evolution of entrepreneurship chronologically, discussed in section 1.2 of this unit.

Check Your Progress B

1) Fill in the blanks:

- i) Psychological theories focus is on individual

- ii) Economic growth cycles can be stretched through
- iii) The anthropological entrepreneurship theory emphasise on the role of
- iv) focus on the way individuals leverage different types of resources to get entrepreneurial efforts on the ground.
- v) The contends that entrepreneurs are one who take advantage of possibilities created by social, cultural, economic and technological changes.

2) State whether the following statements are **True** or **False**.

- i) Resources entrepreneurs might leverage include social network and the information they provide.
- ii) Sustainable economic growth is also dependent on overall social welfare.
- iii) According to traits theorists, entrepreneurship developed because individuals called entrepreneurs possess certain specific competencies.
- iv) Entrepreneurs responds to an opportunity with a solution depending on their access to the resources and capabilities.
- v) Individuals with external locus of control consider themselves responsible for all the events in their life.

ACTIVITY 1

Rishi, Paramjeet and Anil have recently complete their MBA from a reputed business school of India. They are planning together a startup, Smartbuy.com in Gurugram city of Haryana. They want to provide an ecommerce platform and logistics support for local food service providers to sell goods online to the customers in the same local catchment area. They are deliberating a strategy to focus only on food and grocery retail in major Indian cities. They believe that there is a huge food and grocery retail market at around 65% of retail transaction value in India. While the share of organised retail and e-commerce is likely to increase, the traditional retail is expected to continue to hold a major share of the Indian Retail market. Traditional retail had 88 % share, organised retail 8% and E-Commerce 4% in 2017 amounting to around US\$ 800 Billion. EIU report for 2021 puts projections at Traditional retail (75%), Organised retail (18%) and E-Commerce (7%) which could amount to around US\$ 1200 Billion.

The founders of Smartbuy's board believe that in the context of the major transformations happening in the Indian retail market, citing experts and reports that amalgamation of the various general and modern trade channels is the need of the hour. At the same time, the modern retailers and the e-commerce channels still face significant challenges with regard to the last-mile delivery and requires assistance from Kirana stores to penetrate. Proof of model success has limited examples across both products and services

which are different stages of entrepreneurial growth stage. Grofers is an example of grocery hyperlocal model. In the recent past another big Indian retail chain (Reliance) has been carrying out pilots of hyperlocal online food and grocery sales in select cities. Smartbuy is planning partnership with local retailers and Kirana merchants to list their products on the portal and sell them to the customers which will be supported by logistics and payment facilitation. One of the founders, Paramjeet, is slightly apprehensive about this model focused on food and grocery alone because of various failures of hyperlocal startups in food and grocery. There are several online hyperlocal food and grocery startups which closed down, even some got sizeable funding, like PepperTap, Eatio, Tinyowl and Spoonjoy. There is also a challenge to tying up with local players of food and grocery category in the sense that logistics control and coordination in Indian conditions is difficult because severe high temperature in summers, lack of technical infrastructure at level of local stores and access to necessary cold supply chain facilities.

According to reports, Indian retail market is one of the fastest growing across the world and is the fifth largest retail destination globally. The factors attributed to the growth are economic growth, increasing consumerism and growing disposable income. The industry is expected to grow exponentially to reach USD 1,200 billion by 2021 and USD 1,750 billion by 2026. The growth is expected not only in large cities and metro, but also in Tier II and Tier III cities. The increase in consumption expenditure also drives the growth in the retail industry. Of the total retail market, Food and Groceries comprise the largest share, followed by Apparel and Footwear.

Despite the rapid growth in modern trade and e-commerce over the past years, traditional retail still holds a major share of the retail landscape in India and expected to continue domination in the foreseeable future. Unique offerings of traditional retail outlets such as ease of access due to locational proximity, local community knowledge, and personal relations with customers considered as an edge of traditional retail stores.

However, each type of stores and e-commerce platforms have their own challenges. Challenges of Kiranas include lack of the latest technology, working capital issues, Competition from modern retail outlets, lack of space and lack of capital to improve store fit out/ambience. Similarly, challenges faced by organised retail include lack of strong supply chain, getting the right merchandise mix, unavailability of affordable real estate and infrastructure and logistics issues. E-Commerce retailers are facing the policy uncertainty, higher acquisition cost, infrastructure and logistic issues, high cost of delivery, excessive returns and rejections making reverse logistics a bleeding issue and last mile delivery challenges.

With 451 million monthly active internet users at end of financial year 2019, India is now second only to China in terms of internet users, according to a report by Internet and Mobile Association of India (IAMAI). However, with only 36 per cent internet penetration, there is still much headroom for growth, it said. The report mentions that out of 451 million monthly active users, 385 million are over 12 years of age and 66 million are in the age

bracket of 5 to 11 years, who access the Internet on the devices of family members. In terms of absolute numbers, urban India with 192 million users has almost the same number of users as rural India. However, in terms of percentages or penetration, given the disparity of population distribution in urban and rural India, urban India had a considerably higher penetration level.

According to EIU report the number of online shoppers is expected to increase from the current 15 percent of the online population to 50 percent by 2026. The average online retail spending in India was US\$ 225 per user in 2017 and around 2 million shipments were handled daily where half of this demand came from the metro cities. However, ecommerce is increasingly attracting customers from Tier II and III cities, where people have limited access to brands but have high aspirations. More than 30 percent of online shoppers are from Tier II and below cities while the rest are from Metros and Tier I cities. This number is expected to increase to over 55 percent for Tier II and below cities in the next three to five years. Low servicing costs in Tier II and below cities is expected to be a key driver for growth in these cities. Owing to the rise in demand from Tier II and below cities, and given the challenge of last mile delivery, the e-commerce companies can be expected to consider exploring partnerships with traditional retail stores to reach the consumers in these cities.

According to retail research reports organised retail and e-commerce, strives for the largest share of the Indian retail pie, the challenges hinder the growth of these channels. According to some ecommerce experts the need of the hour is a confluence of the retail channels, wherein each channel complements the offerings of the other and provides a seamless shopping service for the benefit of the consumers. Large modern brick and mortar retailers and ecommerce players are advancing towards leveraging the widespread network of Kirana stores to increase their retail presence and to win over the Indian consumer. With just 3 percent of Kirana stores being tech-enabled and the rest with the willingness to adopt technology (70 percent of Kirana stores in big cities and 37 percent of Kirana stores in Tier II cities want to be tech-enabled), the retail giants using this opportunity to technologically and financially empowering the Kirana stores. E-commerce companies are collaborating with Kirana stores for increasing their outreach, and are also providing them with an additional source of earning by way of acting as their channel partners/distributors. For tech-enablement, Kirana stores are provided with POS billing systems, app payments, and back-end integration with wholesaler. To help Kirana stores cope with working capital shortages, easy loans are provided. Additionally, to improve profit margins, stores staff is trained on planograms, assortment selection, and product placement.

However, many retail domain think tanks suggest that offline and online has to move forward in a complementary format for sustainability of overall retail industry. Confrontation could lead to policy interventions and price wars. Some partnerships already being tried out across these formats. Given these broader trends, mix of experiences, online retail market dynamics and local policy challenges, Smartbuy founders need to take next steps including

a detailed business plan before hunting for investors in Bangalore which is scheduled after a couple of weeks

Case Questions

- 1) Discuss possible factors which may have led Smartbuy founders choose path of entrepreneurship.
- 2) Where will you place Smartbuy.com across various types of entrepreneurship models discussed in this unit? Why?
- 3) List out risks and challenges associated with proposed plan.
- 4) Do you support the envisaged plan of Smartbuy to develop a online hyperlocal model focused on food and grocery segment? Why?
- 5) How can Smartbuy.com support economic growth and development of state economies where it finally decides to operate its business?

1.8 LET US SUM UP

Entrepreneurial action lies in assessing the uncertainties associated with the venture and the willingness of the individual to bear those uncertainties, including the various theories, determinants, and models of entrepreneurship. Theories which form basis of conceptual domain of entrepreneurship. Various theories contributed help explain drivers, factors, drives for becoming an entrepreneur. These theories have roots across economics, psychology, sociology, anthropology, and management where can be broadly classified as Psychological entrepreneurship theory, Economic entrepreneurship theory, Opportunity-Based entrepreneurship theory, Sociological entrepreneurship theory, Anthropological entrepreneurship theory and Resource-Based entrepreneurship theory. Entrepreneurship can be mapped to models based on type of innovation and ownership pattern as Ambitious Innovators, Adapters, Solo Self Employed and Managerial Employers. Various factors which drive entrepreneurs, also explained through various types of theories, can be individual or external influences. Entrepreneurial culture leads to larger footprint of entrepreneurship in a state which leads to larger economic development and sustainability.

1.9 KEY WORDS

Entrepreneurship: It involves maximising opportunities – entrepreneurs should identify and act on underdeveloped and untapped opportunities. Dealing with uncertainty, making a distinction between risk, which can be calculated, and uncertainty which can't be overcome.

Ambitious Innovators: Entrepreneurs who are high risk taking, experimentation and tolerance to failures.

Adaptive Innovators: Entrepreneurs usually take the path of existing entrepreneurs with some tweaks or incrementally innovate

Solo Self Employed: Entrepreneurs who are largest group of entrepreneurs who are working on their own and normally contributes maximum in terms of their numbers.

Managerial Employers: Entrepreneurs who are focused on scale and efficiency and may also take up incremental innovative steps.

Hyper Local Retail Model: Retail Model where local needs of customers are serviced from local suppliers.

1.10 ANSWERS TO CHECK YOUR PROGRESS

- A. 2. i. Joseph A. Schumpeter ii. Social entrepreneurs iii. ambitious innovators iv. adaptive entrepreneurs v. Risk
- B. 1. i. personality traits ii. innovation iii. culture iv. Resource based theory v. opportunity-based entrepreneurship theory
2. i. true ii. true iii. true iv. true v. false

1.11 TERMINAL QUESTIONS

- 1) Define the term entrepreneurship and discuss its evolution.
- 2) Write a brief note on different models of entrepreneurship.
- 3) Discuss in detail the Psychological theories of Entrepreneurship.
- 4) Critically evaluate the different theories of entrepreneurship.
- 5) Discuss the factors which drive the development of entrepreneurship.
- 6) Explain the importance of entrepreneurship in a developing country.

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.

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**Entrepreneurship:
A Perspective**

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