

**CHAPTER II**

**Theories of Entrepreneurship:  
Examination of Concept and Theories**

## Theories of Entrepreneurship

There is a myriad of opinions among economists and social scientists about the character and role of entrepreneurs in economic and social development of a country. Much of the confusion arises due to a variety of definitions at different stages of development. However, attention has been made by Mark Casson to put the whole approach into two categories, namely 'Functional Approach' and 'Indicative Approach'. While the functional approach specifies some functions of entrepreneurs, the indicative approach provides some description of an entrepreneur by which we can identify him. Once identification problem is solved, we are confronted with the problem of short supply of such entrepreneurs, particularly in a developing country. However, there is no unanimous prescription as to how the supply of entrepreneurs can be increased in a country. Basically there are two schools of thought - 'Psychologists' and 'Sociologists' - on promoting entrepreneurship in a country.

According to Peter Kilby, "the theories of entrepreneurial supply are constructed from either psychological or sociological elements. These theories try to identify social and psychological factors governing the

appearance of the entrepreneurs and further, the role of social groups and social mechanism by which individuals are recruited into business operations. However, the theoreticians are not unanimous about the role and functions of entrepreneurs. While some have defined entrepreneurs as 'the co-ordinator and risk bearer', others have defined him as technical 'innovator' and 'adopter'. Even the motives behind entrepreneurship are different. While economists have thought the 'profit' as the primary motive, the psychologists thought that 'achievement motivation' is the supreme in the mind of entrepreneurs. Therefore there is no single method to identify the roles function and characteristics of entrepreneurs. It is, therefore, necessary to examine some of the leading theories on entrepreneurship to find out the major traits of entrepreneurs and factors determining the supply of competent entrepreneurs in a society.

#### **(I) Richard Cantillon**

Richard Cantillon,<sup>1</sup> an Irishman living in France, who wrote in the early 18th century, was probably the first to discuss the entrepreneur. Cantillon divided the inhabitants of a country, except for princes and landlords, into two classes: (1) entrepreneurs, including farmers and merchants, and (2) hired people. He distinguishes between the owner and the entrepreneur, although the two

categories are not clearly spelled out. In Cantillon's framework, entrepreneurs buy services at certain prices for selling his products at uncertain prices thus bearing a great risk when the demand for the product is depressed.

**(II) J.B. Say**

The function of entrepreneurs has broadly been described at the first time by Jean Baptiste Say<sup>2</sup> who maintained that the entrepreneurs bring together the factors of production and bear the risk. The success of entrepreneurs depend on their judgment of future demand, estimation of appropriate timings and input, judgment and calculation of probable production costs and selling prices, and supervision and administration. Since the combination of these is not common, the quantity of successful entrepreneurs is limited, especially in industry.

**(III) C. Leon Walras - The Entrepreneur as Coordinator of Production**

Leon Walras,<sup>3</sup> whose theory of general equilibrium in the last part of the nineteenth century has yet to be surpassed, argued that the entrepreneurs are the fourth factor of production who hires others - land, labour and capital. Entrepreneur, in his scheme, is a profit maximiser and his endeavour is to move production to equilibrium. The entrepreneur would expand output when selling price is more than the production cost, i.e. the price paid to the owner

of the productive services. Output is contracted when selling price falls short of the price of the productive services. Leon Walras, thus, made the entrepreneurs a central figure of production.

**(IV) Frank Knight - The Entrepreneur as Decision-Maker under Conditions of Risk**

According to Frank Knight,<sup>4</sup> the entrepreneur is the recipient of 'pure profit' which is a residual left over after payment of all categories of contractual costs. In Knight's model, the primary function of entrepreneur is to bear non-insurable risk and uncertainties for which he receives the reward (profit).

There are two types of risk: insurable and non-insurable. The former can be insured while the latter is not. Insurable risk can be calculated statistically and precautionary measures can be taken, while non-insurable risk cannot be calculated and therefore no precautionary measures can be taken. Entrepreneur in such an uncertain situation has to play the role of a special functionary and the success or failure depends on the foresight and judgment of the entrepreneur.

In the state where all men have perfect knowledge of the future, there are no entrepreneurs, but only labourers performing the purely routine functions of reacting in mechanical fashion to data concerning the future. However,

in a world of uncertainty, the entrepreneur, a new economic functionary endowed with knowledge, judgment, foresight, confidence in his own judgment, and capacity for ruling others, is required. As the person responsible for decisions in instances where there is unmeasurable uncertainty the entrepreneur can make profits, since the lack of perfect foreknowledge prevents the perfect adjustment of supply by competitors to a no-profit equilibrium.<sup>5</sup>

Knight's entrepreneur bears the risk, a function which Schumpeter explicitly indicates belongs to the capitalist. The ultimate decision making and control in the firm lie with the risk bearer and not with the hired manager, even though he may be the managing director or chairman of the board of directors. Generally, it is not possible for a person to exercise only the function of entrepreneurship in the firm. The nearest case to this would be a man who borrowed all the resources for operating a firm (i.e., took the risk) and then hired a manager to was given a completely free hand.<sup>6</sup>

In Knight's view, it is fruitless to try to separate profit from interest, since the entrepreneur, almost of necessity, owns property. Profit is a residual share of income which falls to the person in responsible control of business, who generally also receives property income.

In contrast to Schumpeter's thesis, Knight's explanation has the advantage of making profit a return to the function of entrepreneurship. However, there is no reason why the reward to the entrepreneur needs to be in the form of profits in all institutional settings. Most economists would contend that the control of the giant corporation in the United States today is generally not in the hands of the stockholders but of management, which in many cases is self-perpetuating. Where this is true, Knight's contention that the persons who exercise the function of control in the firm also bear risk can be questioned.

**(V) Adam Smith - The Merging of the Entrepreneurial and Capitalist Functions**

Adam Smith,<sup>7</sup> writing in 1776 at the time of the putting out system and before the advent of the factory system, does not distinguish between entrepreneurs and capitalists, referring to "three different orders of people: ... those who live by rent, ... those who live by wages, and ... those who live by profits" (i.e., employers, who receive profits from capital stock). Accordingly, he attributes the net income of a proprietor to returns for labour and capital (including a premium for risk), and does not allow any returns for direction and organization.<sup>8</sup>

Although Smith had no clear conception of the entrepreneurial function, he placed much stress on the importance of the business class. He believed that each individual would unwittingly add to wealth and welfare by furthering his own selfish ends.

In part, perhaps because of the authority of Smith, the classical economists of the early nineteenth century merged the entrepreneurial and capitalist functions, and failed to develop a theory on the differentiation between interests and profits. The classical school did not have an adequate concept of the entrepreneur: first, because of the inadequacy of the English language; second, they lacked an adequate theory of distribution which included the entrepreneur since they had no theory of general equilibrium, unlike the French economists such as Richard Cantillon and Francis Quesnay; third, their belief that economic relationships are determined by natural law may have precluded an emphasis upon a conscious agent such as the entrepreneur, at the centre of economic process.

#### **(VI) Joseph Schumpeter - The Entrepreneur as Innovator**

The most celebrated theory on entrepreneurship was propounded by the Harvard University Professor Joseph Schumpeter,<sup>9</sup> who brought the conceptual change in the definition and function of entrepreneurs. The Schumpeterian



theory of entrepreneurship is an integral part of his theory of development. Development in his sense implies carrying out of new combinations. This concept of new combinations covers the following five cases:

- (i) The introduction of a new good - that is one with which consumers are not yet familiar - or of a new quality of good.
- (ii) The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially.
- (iii) The opening of a new market, i.e. a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before.
- (iv) The conquest of a new source of supply of raw materials or half-manufactured goods, again irrespective of whether this source already exists or whether it has first to be created.
- (v) The carrying out of the new organisation of any industry like the creation of a monopoly position (for example, through trustification) or the breaking up of a monopoly position.<sup>10</sup>

The carrying out of these new combinations, Schumpeter calls 'enterprise', the individuals who carry them out he calls 'entrepreneurs'. Usually the entrepreneur would finance his innovative activity by bank credit. The entrepreneurial activity represents a disequilibrium situation, a dynamic phenomenon and a break from the routine or 'circular flow' or 'tendency towards equilibrium'. An entrepreneur in short engages himself in unaccustomed activity. "While he swims with the stream in the circular flow which is familiar to him, he swims against the stream if he wishes to change its channel. What was formerly a help becomes a hindrance. What was a familiar datum becomes an unknown. Where the boundaries of routine stop, many people can go no further and the rest can only do so in a highly variable manner". This is the very reason why carrying out of new combinations is a special process and 'object of a special kind of function'.

Schumpeter characterises his position in respect of entrepreneurship by three corresponding pairs of opposites, first, by the opposition of two real processes: the circular flow or the tendency towards equilibrium on the one hand, a change in channels of economic routine or a spontaneous **Change in the economic data** arising from within the system on the other. Secondly, by the opposition of two theoretical apparatuses; statistic and dynamics. Thirdly,

by the opposition of two types of conduct, which following reality, we can picture as two types of individuals, mere managers and entrepreneurs.

Next Schumpeter takes up the question of characteristic motives of the entrepreneurial conduct. Although he tries to indicate the 'psychology of entrepreneur', he believes that "none of the results to which our analysis is intended to lead stands or falls with 'psychology of the entrepreneur' or could be vitiated by any errors in it".

Schumpeter refers to "dream and the will to found a private kingdom", will to conquer, and finally "the joy of creating, of getting things done or simply of exercising ones energy and ingenuity" as the motives that inspire the innovative entrepreneur to undertake the innovation.

Schumpeter's theory, nevertheless, suffers from many inbuilt shortcomings. E.W. Nafziger<sup>11</sup> has pointed out that Schumpeter's theory is purported to have validity only in capitalist economies prior to the rise of giant corporations. This theory has only limited applicability in less developed country. Further, this theory cannot be tested empirically because the persons performing entrepreneurial functions cannot be identified. Schumpeter has also not clearly stated about the supply of entrepreneurs. Peter Kilby<sup>12</sup> says that the great bulk of

Schumpeter's analysis is concerned not with supply of entrepreneurship but with the reactions of the economic system. However, in spite of shortcomings, it should be admitted that Schumpeter has put the entrepreneur theory on sound footing by making the entrepreneur a key functionary of economic development.

**(VII) Peter Kilby - An Economist's Model of Entrepreneurship**

According to Kilby,<sup>13</sup> the researcher faces the problem of identification familiar, for instance, in supply demand analysis.

When a change in entrepreneurial performance is observed, how can it be ascertained whether this has happened because of a shift in the supply of entrepreneurial effort or because of an improvement in the economic environment.

We can find a number of instances where these two sets of factors on the supply and demand side get mixed up and raise the problem of identification. Kilby provides an illustration from the Colombian experience.

In addition to the competing entrepreneurial supply explanations of Hagen and Kasdan, it is possible that changes in the external environment were the key factor in explaining the flowering of Antiquenian entrepreneurial activity.<sup>14</sup>

Using output as a proxy for entrepreneurship and rate of return on investment as surrogate for entrepreneur's 'wage' (residual profit per standard unit of entrepreneurial service), Kilby shows the various possible shifts in the supply demand functions pertaining to entrepreneurship.

The supply schedule is a function of socio-psychological variables and to some extent, the past amount of entrepreneurial "training". The derived demand for entrepreneurial services at any point in time is a function of the price of all cooperating factors of production, the stock of known or transferable technology, the level of managerial organisation and consumer income.<sup>15</sup>

The possibilities are that the increase in entrepreneurial activity may be primarily due to shift in supply; may be essentially a result of shift in demand; following Hirschman an outside disturbance may shift the demand function which induces an increase in output which in turn generates new investment opportunities through backward and forward linkages and creates expansion inducing external economies for existing producers.<sup>16</sup>

The psychological drive for pecuniary gain (desire to maximise profits) is an exogenous factor taken to be given which is supposed to be operative in all societies. This

profit motive combined with "a particular definition of entrepreneurial role provides the highly elastic supply of entrepreneurial services..<sup>17</sup> All the remaining factors on the demand side constitute economic environment. This environment consisted of demand for industrial products, level of company taxation, ease of importing essential inputs, regulatory environment, political stability and security of property". Given a favourable economic setting, the main function of an entrepreneur is to make decisions under uncertainty.

This model eschews the supply side of the entrepreneurship and focusses on the demand side. This model explains the lack of vigorous entrepreneurship in terms of various product and factor market imperfections and inappropriate government policies, abrupt political changes etc. Thus diagnosis of poor entrepreneurial performance makes economists suggest remedies like appropriate monetary, fiscal and trade policies, removal of market imperfections, provision of inputs and technical assistance to industry.<sup>19</sup>

Kilby points out that the above model defines entrepreneurial function in a narrow way. The model is based on an unrealistic assumption that an underdeveloped economy is a well functioning one characterised by the following traits.

Factors of production possess a relatively high degree of mobility; that inputs and output are homogeneous; that producers, consumers and resource owners have knowledge of all the possibilities open to them; and that there are not significant indivisibilities.<sup>20</sup>

But, when these conditions do not obtain, then the entrepreneurial function is much more complex and entrepreneurial role becomes much more significant. It is also essential to recognise the socio-political setting which can further or hinder entrepreneurial activity.

Although not a fully worked out theory, Kilby's model highlights the environmental economic variables present on the demand side of the market for entrepreneurship. But the important drawback of Kilby's formulation is that it virtually assumes away the supply side which in our opinion requires a more detailed treatment as the problem of entrepreneurship in developing economies like India is one of supply of entrepreneurship rather than demand for it. For this economists have to draw from socio-psychological theories.

**(VIII) Liebenstein: 'Input-Completing' and 'Gap-Filling' Function**

Harvey Liebenstein<sup>21</sup> (1968) departs from the neo-classical theorists and maintained that the entrepreneurs

have only a trivial role to play in an economic model which assumed complete certainty.

Liebenstein distinguishes two broad types of entrepreneurial activity. First, that "routine" entrepreneurship is associated with the managerial function of the business. Second, the "new type" entrepreneurship which is basically of Schumpeterian type.

He identified "gap-filling" as an important characteristic attributable to entrepreneurship. In economic theory, the production function is considered to be well defined and completely known. But the theory is silent about the keeper of the knowledge of production function. Where and to whom in the firm this knowledge is supposed to be available is never stated. In reality, there exists larger gaps of knowledge about the production function. There are many deficiencies so far as the production function is concerned. It is the entrepreneurial function to make up the deficiencies or to fill the gaps. These gaps arise because all the inputs in the production function cannot be marketed because some inputs like motivation, leadership, etc. are vague in their nature and whose output is underminate. This "gap-filling" activity gives rise to a most important entrepreneurial function, namely "input-completing". He has to marshal all the inputs to realise final products.



Leibenstein defines entrepreneur as an individual or a group of individuals having four major characteristics: connection of different markets, capability of making up of market deficiencies (gap-filling), "input-completing" and creation and expansion of time-binding input transforming entities (i.e. firms).

On the supply side of entrepreneurship, Liebenstein states that supply of entrepreneurship is governed by input-completing capacity and inadequate motivational state. Secondly, investment criterion also affects the supply of entrepreneurship and suggests that a lower profit investment that releases entrepreneurial energies and capacities may be more fruitful in the long run than a higher profit investment, lastly, though not all the characteristics are trainable, training can do something to increase the supply of entrepreneurship.

**(IX) Maurice Dobb - The Entrepreneur as Innovator, Risk-Taker and Monopolist**

Maurice Dobb<sup>22</sup> acknowledges that any society with modern machine techniques and extensive division of labour requires some coordinating, controlling, or integrating force, which is, he indicates, the entrepreneurial function. The principal elements of this function, a synthesis of the concepts of Schumpeter and Knight, are the capacity for adjustment and innovation, which includes, most importantly, the ability to make correct judgments about the future.<sup>23</sup>

The capitalist undertaker, who usually also plays the role of the capitalist, generally obtains profits as a result of some monopoly advantage. This fact does not mean that he inhibits economic progress, nor that the situation is necessarily morally undesirable. The monopoly or advantage that the undertaker exploits, except that which results from inherent ability, is the result of the possession of greater opportunities such as (1) greater information; (2) superior access to training and education; (3) a lower discount of future earnings; (4) greater firm size; and (5) agreements to restrict entry or output. All five are facilitated by the possession of wealth or position.

For Dobb, capitalist undertaking in conditions of some monopoly privilege is par excellence a progressive force, as indicated by the economic growth of the hundred years prior to 1926 (when he was writing). Few persons are willing to face the burden of uncertainty in an environment where they have little control. The head of a large capitalist corporation or a communist planning board is more likely to commit large resources to expanding output than is a small enterprise in a freely competitive economy.<sup>24</sup>

Despite the success of capitalism in the past century, Dobb questions whether it can, in the future, with the rise of trusts and imperialism, satisfy the demands of economic

adjustment and income distribution more effectively than communism. Economic theory cannot help us very much with this problem, he continues, without new approaches, since the theory of capitalist undertaking is, as of 1926, primarily based on the assumption of a society of classless individualism. Despite the analysis of imperfect competition by Joan Robinson and Edward Chamberlain in the following decade, much of Dobb's criticism of economic theory is still valid.

**(X) McClelland - Entrepreneurship:  
A Function of High Achievement**

David McClelland's<sup>25</sup> is a psychological theory of entrepreneurial supply centering around the concept of n-achievement in his book "The Achieving Society". McClelland believes that the need for achievement is largely for economic development. A society with a generally high level of n-achievement will produce more energetic entrepreneurs, who in turn produce more rapid economic growth.

McClelland used the term entrepreneur not in the sense of capitalist which connotes ownership. Entrepreneur is simply someone who exercises control over production that is not just for personal consumption. The entrepreneurs are different individuals with high n-achievement.

McClelland has noted three major ingredients of the behaviour of an entrepreneur. They are:

1. Desire to take personal responsibility for decision.
2. Preference for decision involving a moderate degree or risk.
3. Interest in concrete knowledge of the results of decision.

McClelland believes that a society with high level of n-achievement will produce more entrepreneurs who in turn would assist more rapid economic development. He prescribed the promotion of an achievement oriented ideology in a country, by inculcating the achievement motivation in child rearing system.

There has been conceptual differences among theoreticians about the basic thesis of McClelland. S.P. Schatz<sup>26</sup> has maintained that the data selected by McClelland to test the theory does not support his hypothesis. Some authors have questioned about the forces to increase the frequency of n-achievement of the society. However, in spite of the doubt about the data and reservation about McClelland's process of economic development, the theory of n-achievement has further developed the psychological base of entrepreneurial theory and given a new direction to the entrepreneurship development, particularly in developing economies.

**(XI) Everett Hagen - Entrepreneurship:  
A Function of 'Status Withdrawal'**

Everett Hagen<sup>27</sup> (1962) in his theory of social change characterised an entrepreneur as a creative personality with high need for achievement, order and autonomy and appears as a problem solver in the process of social transition. Hagen, while describing the process of change in any society as the transition to economic growth searched for the causes of the transition. He states that the transition to economic growth has been very gradual and typically occupies a period of several generations. He suggests that growth has been led not by individuals randomly distributed throughout a society but disproportionately by individuals from some distinctive group. He identifies 'creative innovation' or 'chanve' as the fundamental characteristic of economic growth.

Hagen, after analysing the traditional societies, maintains that the positions of authority are granted in such societies not on the basis of individual 'ability' but on the basis of his 'status'. This structure is characterised by typical 'authoritarian' personality. In contrast, Hagen, visualises an 'innovational' personality. Hagen's concept of innovation involves both arriving at a new mental concept and transmitting that concept into material form. Again, innovation requires creativity and such creative individuals cause economic growth.

Hagen has postulated a sequence of the formation of creative and authoritarian personalities. He identified child-rearing practices as the main element in giving a particular shape to all the personalities. Since the traditional society has great stability, the forces required to disrupt it must be equally powerful. Hagen argues that such disruption is necessary to have creative personalities from the traditional societies. Of course, such change may not occur in the same generation but it is more likely to be an inter-generation change. Hagen's principal theme is that such creative personalities or groups emerge when the members of some social group experience, what he calls, "the withdrawal of status respect". Hagen does not mean "high" status, but merely that it is deemed appropriate by the person occupying it and is respected by others. The 'withdrawal of status respect' may occur when a traditionally alike group is displaced by force from its previous status by another traditional group, or when any superior group changes its attitude toward a subordinate group or on migration to a new society, whenever there is any withdrawal of status respect it would give rise to four different responses and create four different personality types:

(a) **Retreatist:** He who continues to work in the society but remains indifferent to his work and position.

(b) **Ritualist:** He who adopts a kind of defensive behaviour and acts in the ways accepted and approved in his society but with no hopes of improving his position.

(c) **Reformist:** Is a person who foments a rebellion and attempts to establish a new society.

(d) **Innovator:** He is a creative individual and is likely to be entrepreneur.

Schumpeter and Hagen have much in common so far as analysing the growth process is concerned and Hagen's "Creative personality" is also characterised by McClelland's high need for achievement. Hagen's work has an important merit in that unlike McClelland and other entrepreneurial theorists, his work is based on the experience of backward areas of Asia and Latin America. His description of child-rearing in backward areas like Burma would serve equally well for the advanced countries.

Hagen's analysis fails to give policy measures for backward countries which are striving for economic development as he is identifying 'status withdrawal' as the causal factor in emergence of creative personality and status withdrawal by force cannot be contemplated in a democratic set up.

**(XII) John Kunkel - Entrepreneurship: A Function of Social, Political and Economic Structure**

Kunkel's<sup>28</sup> (1970) is a behavioural model which starts with the premise that "man's internal state is beyond the

scope of presently available means of measurement and objective analysis, and knowledge of it is largely unnecessary for the explanation and prediction of behaviour. The model is concerned, instead with the overtly expressed activities of individuals and their relations to the previously and presently surrounding social structures and physical conditions".

John Kunkel states that the industrial entrepreneurship depends upon four structures which are found within a society or community:

(a) **Limitation Structure:** The entrepreneur is viewed as the most important "deviant" individual in economic development and the major determinant which causes such a deviance is a social structure which restricts the behavioural pattern of a population segment. The society limits specific activities to members of particular subcultures. This limitation structure affects all the members of a society.

(b) **Demand Structure:** The limitation structure is basically social and cultural but the demand structure is mainly economic. The demand structure is not static and changes with economic progress and government policies. Demand structure can be improved by providing material rewards. Such rewards are necessary to lay the foundation for future social gains. In short, by manipulating certain selected components of the demand structure, behaviour of people can be shaped in an entrepreneurial way.



(c) **Opportunity Structure:** This structure is necessary to increase the probability of entrepreneurial activity. The opportunity structure constitutes: the availability of capital, management and technological skills, information concerning production methods, labour and markets, opportunity to learn directly or through limitation, and all the activities associated with the effective planning and successful operation of industrial enterprises.

(d) **Labour Structure:** Kunkel separates supply of competent and willing labour from the opportunity structure. He argues that the labour supply cannot be viewed on par with the supply of other material conditions like capital. He states that labour means "men" and is a function of several variables. The supply of factory labour is governed by available alternative means of livelihood, traditionalism and expectations of life.

According to Kunkel, the supply of entrepreneurs depend on the existence and extent to which these four factors are found in a society and proposes the hypothesis that "the incidence of entrepreneurship depends on both the objective and perceived configuration and the actual incidence of entrepreneurs will be due to inadequate or incorrect perceptions of the various structures... It is evident, however, that entrepreneurship depends on rather specific combinations of circumstances which are difficult to create and easy to destroy".<sup>29</sup>

Kunkel goes on to refer to the ambiguity and inadequacy of concepts like values, attitudes, personality and points out that "any sociological analysis will be inadequate as long as poorly defined concepts are given great weight as integral parts of casual chains when, in fact, these concepts refer to the 'end products' of such chains".

He illustrates the above point by referring to the various country case studies. For instance, he considers the question: are Hindu values detrimental or conducive to India's economic development? According to some writers, the spiritualism, philosophy of renunciation and asceticism present almost insurmountable obstacles to economic development. But Kunkel approvingly quotes from Singer, Srinivas and Lambart who attributed India's underdevelopment to existing social and political institutions rather than to the values and religious attitudes.

**(XIII) Hoselitz - Entrepreneurship: A Function of Managerial Skills and Leadership**

In the context of reviewing the theories and suggestive hypotheses pertaining to supply of entrepreneurship, it is relevant to refer to the observations of Hoselitz.<sup>30</sup> He emphasizes the role of culturally marginal groups like Jews and Greeks in medieval Europe, the Lebanese in West Africa, the Chinese in South Asia, the Indians in East Africa in

promoting economic development. Making use of the work of Stonequist and Park, Hoselitz formulated the hypothesis that "marginal men, because of their ambiguous position from a cultural or social stand point, are peculiarly suited to make creative adjustments in situations of change and in the course of this adjustment process to develop genuine innovations in social behaviour."<sup>31</sup>

Hoselitz states that "a person who is to become an industrial entrepreneur must have additional personality traits to those resulting from a drive to amass wealth.. In addition to being motivated by the expectations of profit, he must also have some managerial abilities and more important he must have ability to lead".<sup>32</sup> Hoselitz maintains that financial skills have only a secondary consideration in entrepreneurship. According to him, managerial skills and leadership are the important facets of entrepreneurship. To strengthen his argument, he quotes the history of French and German industrial establishments of the early 19th century where the former were men with mechanical skills rather than financial skills. He identifies three types of business leaderships in the analysis of economic development of underdeveloped countries. The merchant moneylender type, the managerial type and the entrepreneur type. The merchant moneylenders' function is predominantly market oriented. The managerial

function has authoritarian orientation and the function of entrepreneurs, along with the above two orientations, calls for individuals with predominant production orientation. Hoselitz's analysis of entrepreneurship naturally suggests a method for the development of entrepreneurship which depends upon allowing the maturation and development of personalities whose predominant orientation is in the direction of productivity, working and creation and creative integration along with the establishment of social institutions which create a favourable environment for the establishment and existence of independent individual enterprise.<sup>33</sup>

Hoselitz, in his other book,<sup>34</sup> also maintained the same argument suggesting that only a strong desire to make profit is not enough to succeed in becoming an industrial entrepreneur. But in this book, he added one more characteristic to entrepreneurship which is absent in money-lending type, namely liquidity of wealth. The commodity with which a money-lender deals is acceptable to every one but an industrial entrepreneur creates his own commodity and its acceptability is unknown. Therefore, the entrepreneur assumes more risk than those in trading and the lending professions.

Here Hoselitz also further suggests that entrepreneurship can develop in a society when its culture

permits a variety of choices and where social processes are not rigid and in a situation which encourages the development of personalities interested in enterprises.

**(XIV) Harbison - Entrepreneurship:  
An Organisation Building Function**

Frederick Harbison<sup>35</sup> has made very interesting observations regarding entrepreneurship as a factor in economic development. According to him, entrepreneurship means the skill to build an organisation. He found identification of entrepreneur with an individual person in the context of modern industry as unreasonable. For there may be number of individuals who perform different entrepreneurial functions. "In most enterprises, a hierarchy of individuals is required to perform them. Thus, the entrepreneur is in essence An organisation which comprises all of the people required to perform entrepreneurial functions".<sup>36</sup> He suggests that entrepreneurship should be treated as a resource which has both qualitative attributes and quantitative dimensions and hence it will be possible to make empirical studies of such resources as it is related to other factors of production. He categorises the functions of modern entrepreneurial organisation in the following way: "the undertaking or managing of risk and the handling of economic uncertainty; (2) Planning and innovation; (3) Coordination

administration and control; and (4) routine supervision".<sup>37</sup> Of course, in a small enterprise, these different functions will be performed by the same individual. Harbison characterises all the persons who perform entrepreneurial functions in a large organisation as 'managerial resources'.

The effectiveness of business organisations require dynamic and innovative entrepreneurs. "A dynamic organisation needs its idea men its creative thinkers, its people who can plan and initiate changes."<sup>38</sup>

It may be reiterated here that Harbison's definition of entrepreneurship lays more stress on the managerial skills and creativity so far as organisation is concerned. His definition is not far from Schumpeter's concept of innovation. It also allows creation of new organisation as innovation and Harbison also emphasises the organisations' building ability.

**(XV) Frank W Young - Entrepreneurship:  
A Function of Group Level Pattern**

Before elaborating a macrosociological interpretation of entrepreneurship, Young<sup>39</sup> deals with the deficiencies of psychogenic mediation model. Stating that there is general agreement in regard to the point that development is an organisational phenomenon, he points to the inability of the psychogenic interpretations to explain the appearance of new

kind of organisation. "Without exception, they are mute on the question of how individual tendencies, special abilities, unusual motivation, or perception of particular opportunities are transformed into the emergent property that is social organisation". Of entrepreneurs in particular activities during certain periods, the time actually taken by the development process in some instances are some of the other shortcomings of psychogenic interpretation of entrepreneurship.

He reinterprets the individual level entrepreneurial characteristics as the "underside" of a group level pattern. "Instead of looking at individuals, one must find clusters; ethnic communities, occupational groups, or politically oriented factions".<sup>40</sup> Of these groups, those which show "a certain reactiveness or solidarity, defined on the degree to which members create, maintain, and project a coherent definition of their situation", that "seize upon the rhetoric of religion or politics as a vehicle for expressing their deviant view of the world".<sup>41</sup> The chief aspect of this group definition of entrepreneurship is that the entrepreneur typically does not work single-handed. "He is simply the most visible member from an economic point of view of what is typically a cluster of families whose activity is mutually reinforcing and coordinated by a coherent outlook on the world".<sup>42</sup>

Young claims that many entrepreneurial functions are implied in his concept of solidarity. "Given a group bent on finding a suitable reformulation of its outlook on the world, it is likely that recombination of economic factors, higher standards of labour, the search for new resources, technology, markets and a more disciplined management of money and time will emerge as part of this effort".<sup>43</sup> This solidarity of entrepreneurial group also avoids many economic problems that crop up in the case of an individual entrepreneur.

Then Young discusses the similarities and differences between his 'sociogenic explanation of solidarity structures and some other explanations of entrepreneurial supply. He claims that the approach to measurement and analysis that comes out of the macrosociological perspective will in the long run be its most attractive feature".<sup>44</sup>

Young's theory is a theory of change based on society's incorporation of reactive sub-groups. A group will become reactive, as per Young's theory, when the three conditions coincide. The conditions are firstly, when a group experiences low status recognition, secondly, when the denial of access to important social networks and thirdly, when the group has better institutional resources than other groups in the society at the same level.



**(XVI) Thomas Cochran**

Cochran has propounded a sociological theory of entrepreneurship. Starting with the premise that fundamental problems of economic development are non-economic, he emphasises cultural values, role expectations, and social sanctions as the key elements that determines the supply of entrepreneurs. According to him, an entrepreneur is neither a super-normal individual nor a deviant person but represents a society's model personality. "... the executive, therefore, plays a social role partly shaped by the model type of personality that comes from the social conditioning of his generation. While the unusual characters will always depart from the norms, in general, invention and innovation will tend to be along lines congenial to the type of conditioning. In a well established corporation, senior officers or the board have well-formed expectations. These constitute the defining groups and the entrepreneurial role is 'closely defined' by them. "It is obvious that the primarily cultural factors operating on the personality of the executive and the defining of his role by those involved must accommodate to some degree to the necessities of the operations to be carried out".<sup>46</sup> There is no guarantee that proper accommodation always takes place there.

The executive's inner character is largely conditioned by the type of child-rearing and schooling common to the

culture. "This relatively simple framework of an entrepreneurial role defined by the personality of the actor, the expectations of groups with power to sanction deviations from expected behaviour, and the operational needs of the function to be performed, subsumes all the social or cultural factors".<sup>47</sup>

He tried to demonstrate the dynamics of his entrepreneurial model by selecting instances from American economic history. He points to important changes that have taken place in the last 150 years in the U.S. economy. First, the rapid adoption of industrial machinery in first half of the 19th century; second the rise of professional management in the large corporation, starting in the second half of the century; and the third, the spread of mass production techniques in the 19th century. In each of these major changes the social factors in American culture operating through the entrepreneur appear to be well marked. The analysis may also be used to answer questions to why corresponding changes did not occur in other cultures.<sup>48</sup>

Thus the individual's performance as entrepreneur will be influenced by his own attitude toward his occupation the role expectations held by sanctioning groups and the operational requirements of the job. The former two elements are determined largely by the society's values,

while the last element will be influenced by changes over time in such exogenous variables as population, technology, consumer demand or merely "cumulative institutional drift".

**(XVII) Max Weber - Entrepreneurship:  
Function of Religious Beliefs**

Weber,<sup>49</sup> a great German sociologist, in his treatise 'The Protestant Ethic and the Spirit of Capitalism', formulated a theory of social change. After presenting a picture of traditional economic life, very much comparable to the circular flow of Schumpeter, Weber introduces the new business-man into the picture of tranquil routine;

"Now at some time leisurliness was suddenly destroyed, and often entirely without any essential change in the form of organisation, such as the transition to a unifold factory, to mechanical weaving etc. What happened was, on the contrary, often no more than this: Some young man from one of the putting-out families went out into the country, carefully chose weavers for his employ, greatly increased the rigour of his supervision of their work and thus turned them from peasants into labourers. On the other hand, he would begin to change his marketing methods. .... at the same time, he began to introduce the principle of low prices and large turnover. There was repeated what everywhere and always is the result of such a process of rationalisation: those who would not follow suit had to

go out of business. The idyllic state collapsed under the pressure of a bitter competitive struggle, respectable fortunes were made, and not lent out at interest, but always reinvested in the business. ... And what is most important in this connection, it was not generally in such cases a stream of money invested in the industry which brought about this revolution - in several cases known to me the whole revolutionary process was set in motion with a few in such cases a stream of money invested in the industry which brought about this revolution - in several cases known to me the whole revolutionary process was set in motion with a few thousands of capital borrowed from relations, but the new spirit, the spirit of modern capitalism, had set to work. ... Its entry on the scene was not generally peaceful. A flood of mistrust, sometimes of hatred, above all of moral indignation, regularly opposed itself to the first innovator. Often I know of several cases of the sort - regular legends of mysterious shady sports in his previous life have been produced.<sup>50</sup>

As a result of this, the business to make profits even if there takes place fall in prices as a result of increase in output. The inducement of profit results in greater number of business enterprises and a complete reorganisation of the industry occurs.

In the Weberian system, the entrepreneurial energies are generated by following exogeneously supplied religious belief i.e., Protestant ethic. For people who believe in this ethic, hard work in their wals of life is not only to enable them to have their worldly desires met but also to have their spiritual needs satisfied. Thus in the Weberian system, the motivating force for entrepreneurial activity is provided by Calvinist ethic irrespective of the cultural background, personality type of the individual and the social environment to which he lives.

A.N. Pandey<sup>51</sup> challenges the Weberian proposition and maintains that Indian relisions and traditions cannot restrain the economic pursuits as they provide for identity conceptions or set of identity symbols. Tripathi<sup>52</sup> doubts the assumptions of Weber in identifying a single Hindu value system. On the contrary, Hinduism is a collective name for so many beliefs. The overstress on "spiritualism" and "other wordiness" to signify the cruse of Hinduism do injustice to Hinduism by ignoring the material contact.

Max Weber, at the same time, in interpreting the spirit of enterprise amongst Jains, locates approximated "Protestant ethics" among Jains. In Indian situation, Weber's analysis for the presence of spirit of capitalism in Jain community fails completely. One thing is certain,

Jainism with its stress on aparigraha (non-attachment), ahimsa (non-violence), aasatya (non-stealing) and brahmacharya (desirelessness) is neither less ascetic nor less otherworldly than Hinduism. The Weberian model is inadequate to explain the entrepreneurship in Indian situation.

### Conclusion

Different theories outlined above involve varied approaches to grapple with the problem of social and economic change, the change agent and nature of its motivation. While some theories represent essentially mental constructs not very much based or influenced by circumstances surrounding the theorists (Schumpeterian and Weberian theories belong to this category), others are 'empirical' in the sense that they are inspired by social and economic reality as perceived by the theorists. Further, the theories by and large do not focus on merely the narrow aspect of entrepreneurial supply as such but on broad social and economic changes and factors, individuals and groups which trigger them off in a society. The theories also represent bold attempts at bringing together into a theoretical mould the whole gamut of socio-cultural, psychological, and economic factors and their mutual interaction. Schumpeter's view is an integral part of his theory of economic development. The focus is an extraordinary individual's (entrepreneurial function

according to him is the privilege of a type who are less numerous than all those who have the objective possibility of doing it') energized by an urge to achieve 'success'. No doubt such individuals might have played an important part in the capitalist development of different countries of the West and may be doing so in the present day developing economies. But the policy importance of such a view in present day developing economies is very little except when government could identify individuals to provide special assistance. But, according to Schumpeter, such individuals do not need special assistance any way as they could rely on normal banking channels to meet their credit needs and on their ingenuity to cross other hurdles. The theory does not yield any directly testable hypothesis.

Cut to its essentials, Weber's theory draws our attention to the religious precepts that induce or inhibit entrepreneurial activity. Some historical evidence has been adduced by critics to support Weber's theories not only in the case of countries in Western Europe and North America but also in the case of some developing countries. For example, Jains (followers of Jainism) in India have found religious approval and encouragement for their business activities. As development proceeds socio-cultural factors which reflect religious beliefs etc. would become lesser and lesser influential of human behaviour relative to economic

forces. However from Weber's theory emerges one major testable hypothesis namely while some religions (or denominations in the case of each religion) are helpful in developing entrepreneurial qualities, others discourage them.

McClelland's theoretical formulations and their empirical applications give an apparent impression of empirical testability of the underlying propositions. But the empirical counterparts of concepts used by McClelland are found to be highly suspect and one wonders how many of the individuals who are judged (by McClelland's methods) to have high n-achievement could succeed in utilizing it in practice in the present day developing countries unless strengthened by other reinforcing circumstances. However, the achievement of McClelland's elaborate theoretical and empirical investigations lies in its ability to draw the policy maker's attention to the following two important points:

1. It is necessary to create a climate (especially in educational institutions at various levels) to enable the children to grow to become individuals with high n-achievement.
2. It is possible to improve the performance of existing entrepreneurs through imparting proper training and education.



Hagen's theory is the most involved and grandly designed model of social change which did prove to be valid in some instances (country case studies) as Hagen himself showed that entrepreneurial supply can be expected from groups which experienced 'status withdrawal' is an interesting hypothesis which emerges from the theory. Indian case offers many instances where the social groups experienced status withdrawal (due to zamindari abolition, land reforms in general, increased mobility in the caste and decline in the importance of some traditional occupations etc.) and one can test the hypothesis with reference to these groups.

Hoselitz's thesis about minority (Marginal) groups also is amenable to empirical testing. In India, the religious and ethnic minority communities have been found to have displayed considerable entrepreneurial drive.

The theories of Cochran, Young and Kunkel, while providing good insight into the social processes, do not yield hypotheses amenable for testing with particular reference to entrepreneurship. Kilby's model highlights the environmental economic variables present on the demand side of market for entrepreneurship.

To conclude, it can be observed that the concept of entrepreneur and entrepreneurship have intermingled. The concept of entrepreneur and his function has been seen by

different authors from different angles. The major points that arise in the light of above theories can be listed below:

1. Entrepreneur is a co-ordinator of factors of production and he manages production and sales.
2. Entrepreneur is a co-ordinator of factors of production - land-labour and capital. He is a profit maximiser and endeavour to reach to equilibrium.
3. Entrepreneur is an innovator, who innovates new production method, market, source of raw materials, etc. The entrepreneur is motivated by monetary gain i.e. profit.
4. Entrepreneur is a risk bearer who works under uncertain situation and he received reward in terms of pure profit.
5. Entrepreneur is a gap filler and input completer.
6. Entrepreneur exercises controls over production which is not just for personal consumption.
7. The entrepreneur is a creative personality who appears as a problem solver in the process of social transformation.
8. Entrepreneurs are 'Solidarity Group' excel at combining resources.

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