

# THEORIES OF ENTREPRENEURSHIP

# AGENDA

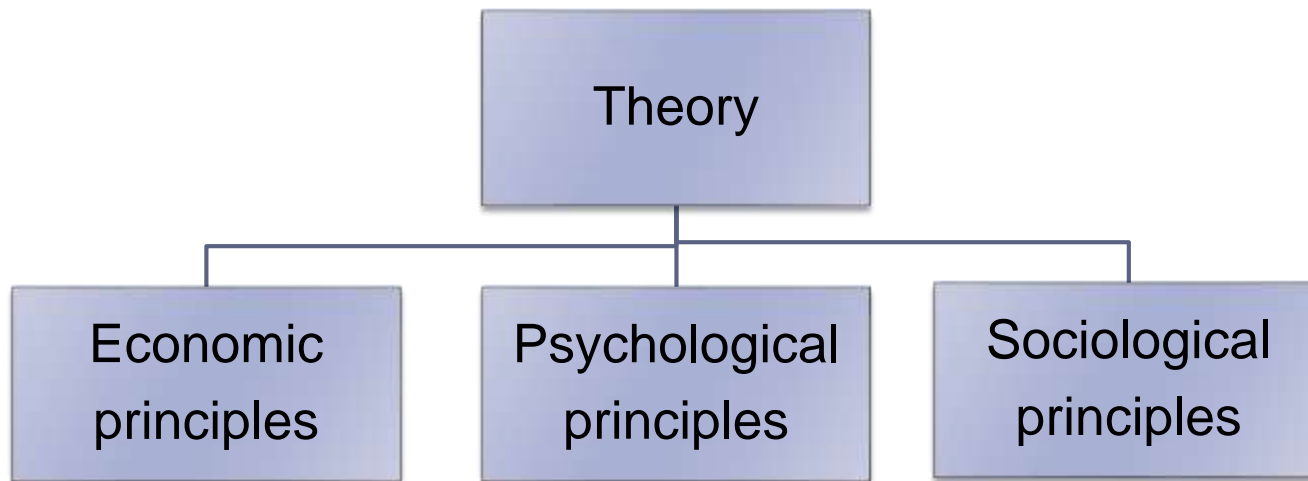
---

- ▶ Classification
- ▶ An economic theory
- ▶ Risk bearing theory of Knight
- ▶ Innovation theory of Schumpeter
- ▶ Leibenstein X-efficiency theory
- ▶ Harvard School theory
- ▶ Theory of Market Equilibrium by Hayek
- ▶ McClelland's Achievement Motivation Theory
- ▶ Theory of Change
- ▶ Theory of Adjustment of Price
- ▶ Theory of Entrepreneurial Supply
- ▶ Theory of Personal Resourcefulness
- ▶ Theory of Cultural Values
- ▶ Conclusion



# Classification

---



# An Economic Theory

---

- Given by **Mark Casson** in his book *The Entrepreneur—An Economic Theory*
- Demand for entrepreneurship arise from the need to change and the supply of entrepreneurship is limited.
- Four Qualities of Entrepreneur
  1. Judgmental decisions.
  2. Co-ordination of Scarce resources.
  3. Motivated by Self Interest.
  4. Imagination—entirely innate.

# Risk bearing theory of Knight

---

- ▶ Prof. Knight's theory is based on economic principles .

## According to Risk –Bearing theory

1. Entrepreneur earns profits because he undertakes risk
2. The main function of an entrepreneur is to act in anticipation of future events.
3. Uncertainty-bearing is essential to production; therefore it is factor of production and the reward for it is a part of normal cost of production.
4. Profit is a payment for the assumption of risks the entrepreneur undertake.

# Evaluation of Knights Theory

---

- ▶ Entrepreneur has to cope with the various challenges which is at once unknown and unpredictable i.e there lies uncertainty.

# Innovation theory of Schumpeter(1949)

---

Entrepreneur is a man who sees opportunity for

- Introducing new techniques or commodity
- Improving organization.
- Development resources.
- Entrepreneur embarks upon new combination of factors of production resulting in new product--termed as innovator.
- Entrepreneur is Dynamic

# TYPE OF INNOVATIONS

---

- ▶ The introduction of new product.
- ▶ The introduction of new method of production
- ▶ The opening of new market
- ▶ The conquest of new source of raw material supply.
- ▶ Reorganization of any industry.



# Features of Schumpeter Theory

---

- ▶ High degree of risk and uncertainty in Schumpeterian World.
- ▶ Highly motivated and talented individual.
- ▶ Profit is merely an part of objectives of entrepreneurs.
- ▶ Progress under capitalism is much slower than actually it is.
- ▶ It is leadership rather than ownership which matters.

# Evaluation Schumpeter's Theory

---

- ▶ It lays that entrepreneur played central part in rise of modern capitalism.
- ▶ Entrepreneur is prime mover of economic development.

# Leibenstein X-efficiency Theory

---

*“When an input is not used effectively the difference between the actual output and the maximum output attributable to that input is measure of Degree of X—Efficiency.”*

## Types of Entrepreneurship

- Routine entrepreneurship
- Innovational entrepreneurship

## Role of Entrepreneurship

- Input completion
- Gap filling

## Entrepreneurs must be able to perceive

- 1.buying and selling opportunities in different markets.
- 2.the possibility of transforming input into output
- 3.determine the profitable activities

# Evaluation of Leibenstein's theory

---

- ▶ It analyzes role of entrepreneur in terms of efficiency.
- ▶ It tells us why growth rate is different in different countries.
- ▶ This theory shows that a firm will achieve maximum efficiency when the firm minimizes cost.

# Harvard School theory

---

- ▶ Given by Cole (1949)
- ▶ Envisages entrepreneurship as purposeful activity that initiate, maintain and develop a profit oriented business.
- ▶ Focus on two activities
  - co-ordination activity
  - sensitivity to the environment.

# Theory of Market Equilibrium by Hayek

---

## According to Hayek “

- *the absence of entrepreneurs in Neo –classical economics is intimately associated with the assumption of market equilibrium.*
- *The ultimate cause of instability in the business world is the elasticity of bank credit but the trace the consequences of this, not through the variations in consumers expenditure ,but through the change in volume of real investment by entrepreneurs.*

## Evaluation of Hayek theory

This theory tells us that sectoral balance in economic system is essential for steady economic development.

# McClelland's Achievement Motivation Theory

---

- ▶ This is a psychological theory.
- ▶ Developed by David Mc Clelland as an Achievement motivation theory. Mc Clelland proposed that there are three major needs or motives for personnel accomplishments. They are as follows:
  1. The need for achievement(nAch)
  2. The need for affiliation.(nAff)
  3. The need for power.(nPow)

## Implications of Motives

- Need for affiliation and need for power are driving force towards entrepreneurship.
- High level of achievement makes an entrepreneur.
- Dreams of entrepreneur appear to be not to 'get rich' but to 'get big'.

# Tenets of McClelland's theory

---

1. Economic developments depends on vigorous activities of a number of individuals who behave in an entrepreneurial fashion.
2. Entrepreneurs are motivated by strong need for achievement.
3. There is evidence is direct that this motivational complex has been in shorter supply in poor countries than in rich countries.
4. To improve the condition of poor countries entrepreneurs are to be increased.





# Evaluation of McClelland's theory

---

- ▶ It produced reason for difference in economic condition of rich and poor countries or developed and underdeveloped countries.
- ▶ It called the nations leaders to build up ambition into the minds of the young people.

# Theory of Change

---

- ▶ Propounded by Young.
- ▶ According to it entrepreneurs have tendency to
  - i. Describe situation as problem
  - ii. Awareness of effort
  - iii. Confidence in ability
  - iv. Analyze the situation before decision making.

# Theory of Change

---

Theory of change is based on society's incorporation of reactive subgroups.

- ▶ According to it group becomes reactive when following three conditions coincide.....
  - a) When a group experiences low status recognition.
  - b) When denied to access to important social networks
  - c) When the group has better institutional resources than other groups in society at the same level.

# Theory of Adjustment of Price

---

Given by Kirzner.

- ▶ According to him entrepreneur has following characteristics
  - ▶ Adjustment of price is the main role of entrepreneur.
  - ▶ Alertness to disequilibrium.
  - ▶ Entrepreneurs are unpredictable.

## Evaluation

- ▶ This theory lays stress on the behavior of the entrepreneurs and their quality of grabbing opportunities in the market.

# Theory of Entrepreneurial Supply

---

- ▶ It was propounded by John Kunkal in 1965.
- ▶ It is based upon experimental psychology and sociological variables.
- ▶ This behaviouristic model concerned with the activities of individuals and their relations to both past, present and social structures and physical condition.

# Theory of Personal Resourcefulness

---

“Personal resourcefulness” is the belief in one’s own capability for initiating actions directed towards creation and growth of enterprise. Thus, it emphasize on initiative rather than reaction.

# Theory of Cultural Values

---

- ▶ Propounded by **Thomas Cochran**.
  - ▶ Entrepreneurs are not super normal individual but they are society's model personality.
- ▶ Performance of entrepreneur influenced by three factors:
  - i. His own attitude towards his own occupation .
  - ii. Operational requirement of job.
  - iii. The role expectations held by the sanctioning groups/society.

# Menger's Theory of Value Added Transformation of Resources

---

- ▶ According to **Carl Menger of Australia (1871)**, economic changes do not arise from the circumstances but from the individual's awareness and understanding of the circumstances. Entrepreneur transforms the available resources into useful goods and services.



# Menger's Model of Value-Added Transformation of Resources

Priority 1

Delivered baked bread is highest-value use

Priority 2

Bread at bakery for sale has high value

Priority 3

Milled flour for baker has high value

Intermediate steps in transformation

Priority 7

Bulk grain from farmer has low value

Priority 8

Grain in field has very low value



# CONCLUSION

---

- ▶ Every theorist has looked at the entrepreneur and entrepreneurship on the basis of his perception, and therefore ,can at best ,provide only a limited view of entrepreneurial phenomenon. No view is right or wrong or more or less .

# Thank you...

---

“Don't die without fulfilling your purpose.”