

KAMPALA INTERNATIONAL UNIVERSITY
ENTREPRENEURSHIP NOTES FOR UNDERGRADUATE
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MODULE ONE: INTRODUCTION TO CONCEPT OF ENTREPRENEURSHIP AND AN ENTREPRENEUR:

No universal definition for entrepreneurship that has emerged. However different definitions that have been put forward during the history of entrepreneurship will help us to understand the terms entrepreneurship and an entrepreneur.

Richard Cantillon (1755) was the first French economist to use the word entrepreneurship in the context it is used today. The word originated from the French word "**entreprendre**" which means to **undertake**. Therefore Cantillon's view of an entrepreneur was that an entrepreneur is someone who undertakes a business ventures. Jean Batiste (1767-1832) broadened the definition of an entrepreneur in economic terms **limiting entrepreneurship to economic resources**. He added on Adam Smith's definition about economic growth and factors of production. An entrepreneur is someone responsible **for bringing together other factors of production to produce goods and services**.

Joseph Schumpeter (1911) looked at an entrepreneur as **an innovator**. He believed that entrepreneurs were the owners or managers who used new inventions to create a new product and new demand for the new product. **Therefore entrepreneurs create wealth from their abilities and ambitions rather than only from ownership of land and capital. This theory of innovation is still the dominant theory in business today.**

David McClelland (1961) referred to the qualities of an entrepreneur rather than a given definition. An entrepreneur has **an internal locus, is a moderate risk taker, and has a strong need for achievement and change**.

EMERGING DEFINITIONS

Peter Drucker (1993) first spoke about the entrepreneur as **someone who seeks to minimize opportunities to himself**. In his book the innovator and entrepreneurship he defines what people perceive as the entrepreneur as someone who starts his own small business. But he contradicts it by saying that an entrepreneur can be found anywhere not just in small businesses as most people believe. More still he says an entrepreneur is always searching for a change, responds to it and exploits it as an opportunity. This definition shows that entrepreneurship is a process.

According to A.H Cole "Entrepreneurship is the **purposeful activity of an individual or group of associated individuals, undertaken to initiate, maintain or aggrandize profit by production or distribution of economic goods or services**"

According to William Diamond, Entrepreneurship involves **the willingness to assume risks in undertaking an economic activity particularly a new one.....it may**

involve an innovation but not necessarily so. It always involves risk taking and decision-making, although neither risk nor decision making may be of great significance.”

According to Peter P Drucker, ‘Entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. Knowledge in entrepreneurship is a means to an end; that is, by the practice.

Benjamin Higgins has defined entrepreneurship as “Entrepreneurship means the function of foreseeing investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labor, arranging for the supply of raw materials and selecting top managers for the day to day operation of an enterprise

According to B.C Tandon, “entrepreneurship means the function of creating something new, organizing, coordinating, and undertaking risk involved.”

According to Jeffery A. Timmons ‘Entrepreneurship is the ***ability to create and build something practically from nothing***. Fundamentally a human creative activity is finding personal energy by initiating, building and achieving an Enterprise and organization rather than by just watching, analyzing, or describing one. It requires the ability to take calculated risk and to reduce the chances of failure.”

According to Schumpeter, ‘Entrepreneurship is based on purposeful and systematic innovation. It includes not only the independent businessman but also company directors and managers who actually carry out innovative functions.”

The endless possibilities of what an entrepreneur can do make it impossible to define accurately an entrepreneur.

However it is important to understand ***entrepreneurship as the process of creating an opportunity and pursuing it regardless of the resources currently available.***

OR

Entrepreneurship is a process of identifying viable business opportunities and implementing them through innovativeness and creativity.

AN ENTREPRENEUR

An entrepreneur is a person who is able to identify business opportunities, mobilize the necessary resources i.e. financial, time, and human, and initiate a successful business activity.

An entrepreneur is a person who organizes, manages and assumes the risks of a new business or an enterprise.

This is a person who understands the risks and challenges of running a business. He initiates one, does the management and all that pertains to the business operations that may be required. He organizes resources, raises capital and engages in the real action of transactions in a market situation.

An entrepreneur is a person who identifies a viable business opportunity and takes the risks of investing his time and resources to make sure that the idea succeeds.

Hodgetts and Kuratko (1992); define an entrepreneur ***as an innovator who is capable of identifying opportunities, exploiting them and changing them into marketable ideas***. He adds value in form of time, effort, money and skills with regard to implementation of ideas and ultimately reaps the rewards of his effort.

Peter Drucker defines an entrepreneur as ***one who always searches for change, responds and exploits it as an opportunity***.

Wal defines an entrepreneur as an organizer and coordinator of the various factors of production to produce goods and services on a profit.

McClelland pointed out the qualities of an entrepreneur rather than a given definition. According to him an entrepreneur is energetic, moderate risk taker, has strong need for achievement and change.

CLASSIFICATION OF ENTREPRENEURS

There are a number of different classification schemes of entrepreneurs and they include;

1. Opportunistic entrepreneurs;

- These entrepreneurs start businesses; act as managers and with a view of expanding the business to maximum.
- They may not have skill to manage the business but have the opportunity to start and direct others.
- These entrepreneurs see beyond and have abilities to initiate ventures into businesses that will expand and grow.
- They are innovative i.e. they are able to delegate activities to others, ready and able to scan the environment for more opportunities.

Generally they are growth and independent oriented because they pursue opportunities to maximize the potentials of their ventures and have their main ambition as to work for themselves.

2. Craftsmen;

These exploit and use personal skills to start a business without thinking of its growth or the expansion objectives. Most of the times in this type of entrepreneurs there is no expansion even after a long time. In other words it is not business oriented and skills can take any form like technical or professional.

These entrepreneurs are less concerned with profitability and growth but are more interested in earning a stable living from their specialist skills.

3. Innovative entrepreneurs;

They develop a new product or introduce a new quality of an existing product;

They develop a new way of delivering an existing or new product;

They develop a new way of informing the customers about the product;

They develop a new way of organizing the company;

Adoptive /imitative entrepreneurs;

These entrepreneurs adopt or imitate or copy successful innovations initiated by creative and innovative entrepreneurs and just improve on them and bring them in the same market to compete with them. E.g. the Chinese are imitative entrepreneurs who imitate what Americans are doing and just improve on it to better compete with the same products in the market. (Most common with mobile phones)

Drone entrepreneurs;

These may not be defined because they are not interested in taking any risk. They do not like change and just follow in their predecessors footsteps. Their problem is conservatism which stops them from breaking away from tradition, customs and other norms.

ENTREPRENEURIAL BEHVAIOUR (THEORIES OF ENTREPRENEURSHIP)

Theories of entrepreneurship are basically underlying principles that:

- Explain entrepreneurship
- Predict/forecast/foresee entrepreneurship activity
- Provide normative guidance i.e. provides guidance for practice by providing the right action in particular circumstances.

A good working entrepreneurship theory would:

- Explain why and how entrepreneurs come into existence.
- Explain or predict conditions under which entrepreneurship talents should be employed.
- Address issues that relate to the supply and demand for entrepreneurship.
- Deal with type of resources needed to start a new venture.

A good theory should also meet the criteria of:

- Validity- can it be verified through empirical studies.
- Accuracy- how accurate is it in describing the observable phenomena.
- Robustness-can it be applied across a range of specific situations or environments or populations.

Entrepreneurship Theories in detail

The following are some of the theories that explain the concept of entrepreneurship:

- Social cultural theories
- Economic theories
- Finance theories
- Personality/ psychological theories
- Networking theories

1. SOCIAL CULTURAL THEORIES

- **Entrepreneurship is passed down from generation to generation by way of emulation or copying of an entrepreneurial spirit in the family/society**
- The theory attempts to link entrepreneurship to the larger social cultural contents.
- **The socialization that one goes through defines his role as an entrepreneur e.g. early childhood experiences, for instance working in a family business.**
- **The theory states that many entrepreneurs come from social environment that could be described as deprived: their childhood were filled with poverty and parental neglect.**
- **Entrepreneurs grow up in a world where the dominant themes concern desertion, death and neglect. Such an upbringing causes an individual to be highly impulsive, reject authority figures and have persistent feelings of rejection and isolation.**
- Individuals who grow up in these environments are motivated to take control over what they consider to be a hostile and uninviting world. They create business that they can control.
- **Entrepreneurs come from families where the father or mother was self employed.**
- Entrepreneurs come from backgrounds where **family support** for such careers is available.
- **Race and culture** play significant roles in influencing entrepreneurial careers. Race and culture may provide networking and support to the would-be entrepreneurs.
- A **people's belief/religion** systems, cultural values, social structures are the basis of entrepreneurial behavior.

2. ECONOMIC THEORIES

- Businesses emerge due to efficient utilization of factors and production. The key person, the entrepreneur, brings about more and more efficient use of the existing resources.
- The theory focuses on the nature of innovation and new production processes.
- These theories view entrepreneurs as agents of change; they exploit new opportunities.
- The theories recognize that markets are continually being pushed away from equilibrium by change in the environment which generates new opportunities.
- Wherever there is this disequilibrium entrepreneurs bring the world back to equilibrium by relocating resources to capture these profits.

3. FINANCE THEORIES

- Focuses on capital and financial markets and examines a range of factors that relate to the supply of capital to new ventures. People will start businesses if capital is available.

- Availability of surplus funds or propensity to save creates entrepreneurship.

4. NETWORKING THEORIES

- Entrepreneurs come into existence because of availability of existence networks.
- Strong social ties- informal or formal which supports the development of entrepreneurship.
- The network can consist of suppliers, financiers, markets, information networks, networks for solving business problems

5. PSYCHOLOGICAL THEORIES

- Focuses on the personality of the entrepreneur.
- People start business because they possess certain characteristics-e.g. need to achieve, internal locus of control, tolerance of ambiguity, risk taking.
- Certain psychological traits predispose/prompt/influence people to join or undertake entrepreneurship.
- The supply of entrepreneurship depends on individuals' psychic needs for achievement rather than the desire for money.

THE ROLE OF AN ENTREPRENEUR IN ECONOMIC DEVELOPMENT

- **He is creative and innovative.** In this case he is able to bring new goods and services to the market or improve on the existing products and services to best meet customers' needs. Helps in reducing on the BOP problems (more exports and fewer imports).
- **Job creation.** As entrepreneurs start and develop their business ventures, they require staff to help them in running the activities involved. For example staff to produce, sell and deliver their products or services to their final consumers hence creating jobs.
- **Human resource development.** Entrepreneurs help in the mobilization of human resources who are not absorbed in the agriculture or large scale enterprises for productive and remunerative activities. They employ people with little or no skills and help to develop them in a pool of skilled and semi-skilled workers that contribute to economic development.
- **Entrepreneurship development and promotion.** As they start and manage their businesses successfully, they act as a motivation for other people to also start and manage their own businesses. In other words they act as role models of excellence in businesses management for other people to emulate hence promoting entrepreneurship.
- **Agents of poverty alleviation and improved quality of life.** Entrepreneurial businesses are an important source of income to the lowest income households i.e. they provide jobs to all categories of people and this helps to fight against poverty. Moreover in their attempt to provide cheap and better quality products, they provide

relevant goods and services to a wider geographical area of the country giving people greater choice and a better quality of life.

- **Promote economic growth;** Entrepreneurial ventures stimulate the creation of new wealth by investing in a small but steady and predictable manner. Their incomes are taxed to generate government revenue and their services and products contribute to GDP growth. With the demise/failure/downfall of large parastatals/companies, and the low response of big multinational investors, small businesses carry on the responsibility of economic growth and development in their respective countries.
- **Resource mobilization;** With a poor saving culture in our country Rwanda, entrepreneurial businesses are important avenues for mobilizing, utilizing and investing resources. The source of funds is mainly from close friends and relatives because at the start entrepreneurs have no securities to pledge in banks to access loans.
- **Adaptability and sustainability;** A unique feature of entrepreneurial ventures and businesses is the ability of entrepreneurs to adapt their products, services and methods to the market/client needs; They are less bureaucratic and able to cope with the complexity and changes to today's liberalized or open economies more over in an environment of scarce capital, poor technical, entrepreneurial and managerial skills; entrepreneurs provide the logical steps to business entry and survival in many cases. In industries characterized by a wide variation in demand and supply, only entrepreneurial businesses are able to survive.

ENTREPRENEURIAL TRAITS/CHARACTERISTICS

Behavior/characteristics/personality of entrepreneurs

Strong need for achievement;

When entrepreneurs succeed in something, their self esteem is enhanced and in some cases they are encouraged to seek other assignments. Some people's needs are never quenched while others are satisfied at different goals they achieve. It is believed that this need for achievement is learned during childhood and teenage age years.

Risk taking propensity;

Entrepreneurs are dealing with new ideas and events whose results are uncertain. Therefore an entrepreneur must have the capacity to tolerate risk. Research shows that entrepreneurial people are calculated or moderate risk takers. Peter said an entrepreneur is opportunity focused than risk focused.

Internal locus of control;

Entrepreneurs believe that they are the ones in control of the events around them. Rotter differentiated between internal and external locus of control. Internal locus of control claims that anything that happens to a person is out of their own making where as a

person with external locus of control feels powerless and looks at others as decision makers in their life.

Need for autonomy;

Very close to locus of control but inward looking for autonomy, the individual is trying to go alone. Such people try to be free from rules and regulations that will tie them down;

Determination/persistence;

These factors are necessary for success. An entrepreneur will have to overcome difficulties, must be willing to be determined when will rebuke changes and follow through on the original plan no matter how difficult the situation becomes.

Initiative; An entrepreneur must be proactive, he must be the kind of person to take a bold step and not be afraid to look and act on new opportunities. In other words they act on rather than react on their environment.

Creativity;

The thinking approach of entrepreneurs goes beyond what beyond what the ordinary people imagine to happen. The use of the sixth sense and the third eye while analyzing situations and problems at hand; Entrepreneurs have the ability to bring something new into existence. They tend to more adaptive and prepared to consider all the available alternatives.

Self confidence;

Entrepreneurship is a process that combines few attributes; an individual must also have self confidence to be able to combine and endeavor to use his or her other traits.

Trust and commitment to others;

Entrepreneurs need to have in the people around them. They recognize the value of others to help them in their ventures.

Hard work;

Entrepreneurs put a lot of extra physical and mental effort into developing their own projects. To them it is perseverance and hard work that succeeds in new venture creations which is full of risks.

Assertiveness;

Entrepreneurs have a clear stand of what they want to gain from a situation. They have a commitment to the outcome and they are willing to use different procedures to achieve the final outcome, unlike aggressive people who push their own ideas no matter what. Assertiveness relies heavily on mutual understanding and good communication skills when they want new policy or a new project to be acting on they get help of others by their assertiveness.

Information seeking and eager to learn;

Entrepreneurs are very inquisitive and they end up finding a lot of information and tire to learn more.

THE ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

The following are some of the benefits of entrepreneurship to the economy;

It provides a productive outlet for skills of enterprising and business people. In other words it gives chance for people to put their business skills and knowledge into use.

It is a significant contributor to the economy in terms of goods and services offered; The goods and services offered by entrepreneurial ventures contribute to the overall national income.

Creation of jobs at a relatively low capital cost especially in the first growing service sector. It is easy to start up an entrepreneurial business because it requires little capital and therefore all classes of people can participate without discrimination.

It enables development of a pool of skilled and semi-skilled workers who are the base for industrial expansion. The people who are employed in majority of entrepreneurial ventures do not have the skills but they are trained and equipped with the skills in their areas of operation.

Entrepreneurship is a source of innovation in products, services, techniques and process. It helps the economy to reduce on the problem if of BOP.

Creating demand and supply as well; Entrepreneurs identify an opportunity in the market exploit it in terms producing goods and services needed and even creating demand for such goods consistently.

Contributes to increased participation of all communities in the economic activities in the country; This is because to start an entrepreneurial venture does not require a lot of capital so even the low income people can easily participate.

It offers excellent opportunities to examine one's managerial and entrepreneurial capabilities while running your own venture;

It encourages a culture of saving among the people in the country. Generally in business sense for an entrepreneur to successfully develop and grow it requires a smart saving culture while reinvesting the savings to promote your business growth.

- They account for over one-half of paid employment
- Creating jobs at relatively low cost jobs
- Providing a vehicle for introducing a more equitable income distribution.
- Developing a pool of skilled and semi-skilled workers.
- Improving forward and backward linkages between economically, socially and geographically diverse sectors of the economy.
- Adaptability and flexibility to market changes.
- Improving forward and backward linkages between economically, socially and geographically diverse sectors of the economy.
- Providing opportunities for developing and adapting appropriate technological and managerial approaches

- Increasing mobility for the improved development of natural resources
- Contributing to increased participation of indigenous Kenyans in the economic activities of the country
- They provide a productive outlet for expressing the entrepreneurial spirit.
- Offering excellent opportunities for entrepreneurial and managerial talent to mature
- Supporting industrialization policies that promote rural-urban balance.
- Promoting special sub-contracting arrangements and acting as ancillaries to large-scale enterprises
- Creating demand and supply.
- Where there are shortages of capital, managerial resources and skilled labor, the promotion of SMEs is an important approach to economic development.
- Large-scale public and private enterprises are not flexible and adaptable. They can't easily innovate as SEs. They are also capital intensive. As such, they cannot create jobs easily as SEs do.
- Tackling balance of payments problems
- Achieving growth in key industrial sectors
- Curbing inflation
- Achieving social justice and equality
- Entrepreneurship formulates venture ideas, identifies potential and profitable areas of market entry.
- Mobilizes venture capital; combines often factors of production
- Creates markets through advertising and other means, and
- Most importantly, in Schumpeterian sense, brings about technological change by undertaking creative and innovative activities
- Different levels of economic development of various countries of the world are said by some to be accounted for by the differential supply of entrepreneurship

CHALLENGES OF ENTREPRENEURSHIP;

These are the problems that affect or discourage entrepreneurs in their pursuit to develop their business ventures;

- Long working hours; The intention here is to at least improve your sales or performance; however it leads to stress and affects your social life.
- Poor pay: during the initial stages of your business the returns are usually very little so it requires persistence and determination.
- Unclear future; it is usually very difficult to predict success and the future of the business because it is new.
- Fear of losing all that has been invested; This brings in the element of risk every time you are thinking about the finances and time you have invested and reflecting on the effects in case of a losses or decline of the business

- Bankruptcies and closure; Majority of the businesses due to mismanagement and lack of ethics by their owners they end up bankrupt and closed
- **Other challenges**
- Fear of delegating; in the initial or first days after starting your businesses you cannot trust anyone to manage and run your business successfully. The problem of do it yourself and know it all
- Competition from established business; There is competition for customers, suppliers and even others resources depending o the nature of the business you are running.
- Lack of funds especially before break even; In other words here it means the business operations a limited by you funds and resources.
- Mismanagement by employees; some employees have unethical behaviour like swindling or stealing the business property and money hence failing your plans.
- You are not your own boss all the time because in many instances the customers, suppliers and government agencies are often your bosses.