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# A Study of Theories: Entrepreneurship & its Risk

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**Abstract:** Theory is a well-substantiated explanation acquired through the scientific method and repeatedly tested and confirmed through observation and experimentation. Entrepreneurship is a multidisciplinary area governed by human factors, ever changing society pursuing simultaneously, economic objectives, social objectives, psychological objectives. Theory of Entrepreneurship is woven into sociological, cultural, psychological, political and managerial fiber with them it forms an economic web. For scientist theory means relationship between facts. Entrepreneurship has been defined differently by different writers and thinkers. Various authors have developed various theories on entrepreneurship along with risk and popularized the concept among the common people. The concept of entrepreneurship is as old as civilization while the theories of entrepreneurship have evolved from over a period of more than two centuries. The theories of entrepreneurship can be explained from economists", psychologists" and socialists" viewpoint, which are developed over a period of time.

**Keywords:** Entrepreneurship, Sociological, Psychological and Economic.

## I. HISTORICAL PERSPECTIVE

In early 17th century, Richard Cantillon, an economist who is originally called as developer of entrepreneurship coined the term „entrepreneur” and in late 17th century, it was defined that entrepreneur bears the risk, supervises and owns the factor of production. Later in 1803, Jean Baptiste Say proposed that profits earned by the entrepreneur are different from the profit earned by the capital owner and thus differentiated between both. Later in late 18th century distinction was further made clear between those who supply funds and earn interests and the one who earns from entrepreneurial activities. In 1934, Joseph Schumpeter defines entrepreneur as an innovator and later in 1964, Peter Drucker defined the entrepreneur as the one who maximizes opportunities. In 20th century, as technology improves and globalization takes place, it's further stated that entrepreneur not only has to make profits but also has to tap new markets, develop new products and processes. Thus, entrepreneurship has taken new meanings in this century and a lot more has to be added.

## II. INTRODUCTION

The Economic Theory constitute Economic incentives are the main motivators. Economic incentives include; the taxation policy, industrial policy, sources of finance and raw material, infrastructure availability, investment and marketing opportunities - access to information about market conditions and technology etc. Associate person: Richard Cantillon, an Irish French Economist viewed entrepreneurs as a risk taker.



- 1) *The Sociological Theory, Associate Person:* Jean Baptiste, Entrepreneurship is likely to get a boost in a particular social culture. The (entrepreneurial) behaviour of individuals in a society is influenced by society's values, Religious beliefs, Customs, Taboos, etc. The entrepreneur merely performs a role as per the expectations of the society. As per Jean Baptiste say, an aristocratic Industrialist Entrepreneur combines land of one, labour of another and the capital of yet another to produce a product. By selling the product he pays interest on the capital, rent on land and wages to labourer and what remains is profit. First time distinction between the capitalist as the financier and the entrepreneur as the organizer.
- 2) *Entrepreneurship Innovation Theory, Associate Person:* Joseph Schumpeter, This theory ignores earlier two abilities, which were till then considered key for an entrepreneur is Organizing Abilities & Risk-Taking Abilities. According to Joseph Schumpeter, a 20th century Austrian Economist An entrepreneur is a person who is willing and able to convert a new idea or invention into a successful innovation. Entrepreneurship resulted in new industries, even though it entailed combining the existing inputs in a new way.
- 3) *Psychological Theory:* Entrepreneurship gets boost when society has sufficient supply of individuals with necessary psychological characteristics. These psychological characteristics include: Need for Achievement, A vision foresight, Ability to face opposition. These characteristics are formed during the individual's upbringing by high standards of excellence, self-reliance and low father dominance.
- 4) *Theory of Achievement: Associate person:* David McClelland, As the basis of entrepreneurial personality, he emphasized the importance of achievement motivation through which, entrepreneur fulfills Economic and Social Development. The need for achievement was found highest among entrepreneurs through an experiment. The Kakinada Experiment conducted by McClelland in America, Mexico and India (Kakinada). Young adults were selected and put through a 3 months training to induce achievement motivation. In the course content: trainees asked to control their thinking and be positive, trainees imagined themselves in need of challenges and success and to set achievable goals & imitate their role models, positive impact on performance, traditional beliefs do not inhibit. McClelland identified two characteristics of entrepreneurship:
  - a) Doing things in a new and better way
  - b) Decision making under uncertainty, that means people with High Achievement Orientation (Need to Succeed) are more likely to become entrepreneurs. Merely, people are not influenced by money or external incentives and profits are only a measure of success and competency.
- 5) *Status Withdrawal Theory: Associated person:* E. Hagen, This theory provides that a class which lost its previous prestige or a minority group tends to show aggressive entrepreneurial drive. If a group feels that their values and status are not respected by society, they turn to innovation to get respect of society. Entrepreneurship is a function of status withdrawal. Four events which can produce status withdrawal, i.e.
  - a) Displacement of a traditional elite group by physical force,
  - b) Denigration of values, symbols due to change in attitude of superior class,
  - c) Inconsistency of static symbol due to change in economic power, and
  - d) Non-acceptance of expected status on migration to a new society. Entrepreneur as a creative problem shooter. Hagen visualized an innovative personality i.e., Retreatist, Ritualist, Reformist, Innovator. And, innovation requires creativity and such creative individuals cause economic growth.
- 6) *Theory of Social Change: Associated person:* Max Weber, Ethical value system protestant ethic and the spirit of capitalism, religion and its impact on entrepreneurial culture. Weber opined that spirit of rapid industrial growth depends upon, rationalized technology acquisition of money, rational use of money for productivity, multiplication of money. These elements depend upon specific value orientation of individuals generated by ethical values. Theory of Social Behaviour Associated person: Kunkel, It presents a behavioral model. Supply of entrepreneurs is a function of social, political and economic structure. Individuals perform various activities of which some are accepted by society while others are not. Four structures in society i.e., limitation structure, demand structure, opportunity structure, labour structure are often held responsible for entrepreneurial growth.
- 7) *Theory of Leadership Associated Person:* Hoselitz, Entrepreneurship is a function of managerial skill and leadership means ability to lead and manage. Social conditions should ensure the development of enterprise-oriented personalities. Here, Hoselitz emphasized on the role of culturally marginal groups into entrepreneurship growth.



- 8) *Theory of Model Personality Associated Person:* Cocharn ,This is a sociological theory of entrepreneurial supply. Cocharn emphasises cultural values, role expectation and social sanctions as the key element. Entrepreneur's performance is influenced by his attitude towards his occupation, role expectation held by sanctioning groups, operational requirements of the job and society's values, most important for attitude and role expectation.
- 9) *Theory of Systematic Innovation Associated Person:* Prof. Drucker ,Systematic innovation consists in the purposeful and organised search for changes and in the systematic analysis of the opportunities such changes might offer for economic or social innovation. Systematic innovation means seven sources for innovative opportunity. The first four sources lie within the enterprise, i.e.,
  - a) The unexpected success, the unexpected failure, the unexpected outside event;
  - b) The incongruity between reality as it actually is and reality as it is assumed to be or ought to be;
  - c) Innovation based on process need;
  - d) Changes in industry structure or market structure that catch every one unaware. And, the second set of sources for innovative opportunity, a set of three involves changes outside the enterprise of industry; (1) Demographics (Population changes); (2) Changes in perception, mood and meaning; (3) New knowledge, both scientific and nonscientific. Lines between these seven source areas of innovative opportunities are blurred, and considerable overlap between them

#### A. Study

Entrepreneurship theories and research remain important to the development of the entrepreneurship field. This paper examines six entrepreneurship theories with underlying empirical studies. These are: 1) Economic entrepreneurship theory, 2) Psychological entrepreneurship theory, 3) Sociological entrepreneurship theory, 4) Anthropological entrepreneurship theory, 5) Opportunity-Based entrepreneurship theory, and 6) Resource-Based entrepreneurship theory. These theories offer us a fairly good opportunity to refocus our efforts at integrating the diverse viewpoints.

### III. ECONOMIC ENTREPRENEURSHIP THEORIES

The economic entrepreneurship theory has deep roots in the classical and neoclassical theories of economics, and the Austrian market process (AMP). These theories explore the economic factors that enhance entrepreneurial behavior.

#### A. Classical Theory

Free commerce, specialization, and competition were praised as virtues by the classical conception (Ricardo, 1817; Smith, 1776). The industrial revolution in Britain, which began in the middle of the 1700s and continued until the 1830s, is what gave rise to the thesis. In the context of producing and distributing goods in a cutthroat market, the classical movement described the entrepreneur's directing role (Say, 1803). Three modalities of production were identified by classical theorists: labor, capital, and land. The classical theory has been criticized. These theorists were unable to account for the dynamic upheaval brought on by industrial age entrepreneurs (Murphy, Liao, & Welsch, 2006).

#### B. Neo-classical Theory

The neo-classical model, which was developed in response to criticisms of the classical model, claimed that economic phenomena could be reduced to instances of pure trade, reflect an ideal ratio, and take place in a mostly closed economic system. The exchange participants, events, and effects of the exchange's outcomes on other market actors made up the economic system. In the neoclassical movement, entrepreneurship was sufficiently encouraged by the significance of exchange and declining marginal utility (Murphy, Liao, & Welsch, 2006).

There have been some complaints made about the neo-classical conjectures. The first is that individual-level entrepreneurial activity is overlooked in favor of collective demand. The future worth of innovative outputs is also not reflected by use value or trade value. Thirdly, market-based systems' complexity is not adequately represented by rational resource allocation. The fourth argument made was that efficiency-based performance does not encompass innovation and uneven outputs, and that perfect or nearly perfect information does not adequately explain uncertainty. In addition, innovation and entrepreneurship are prohibited by perfect competition.

The fifth issue is that in a market economy, it is difficult to track every input and every output. The order of an economic system is destroyed by entrepreneurial activity.

### C. Austrian Market Process (AMP)

The neo-classical conjectures have received some criticism. The first is the preference for communal demand over individual-level entrepreneurial activity. Use value or trade value also do not accurately reflect the future value of inventive outputs. Third, rational resource allocation does not sufficiently capture the complexity of market-based systems. Fourthly, it was argued that performance based on efficiency does not account for innovation and unequal outputs, and that complete or nearly complete information does not sufficiently account for uncertainty. In addition, perfect competition prevents innovation and entrepreneurship. The fifth problem is that it is challenging to track each input and each output in a market economy. Entrepreneurial activity upends the structure of an economic system.

Assuming perfect competition, carrying closed-system assumptions, tracing observable fact data, and inferring repeatable observation-based principles, the prior neoclassical framework did not account for such activity. In contrast, AMP rejected the idea that repeated circumstances in an economic system always produce the same results. Instead, it claimed that in order to create value, entrepreneurs are motivated to use episodic knowledge—knowledge that may have never been seen before and would never be seen again.

Thus, according to Kirzner (1973), the AMP was founded on three fundamental conceptualizations. The first was the arbitraging market, in which opportunities for specific market actors arise while others pass up particular opportunities or engage in unfavorable behavior. The second was being on the lookout for lucrative chances that entrepreneurs can take advantage of. Following Say (1803) and Schumpeter (1934), the third conception was that ownership is distinct from entrepreneurship. In other words, ownership of resources is not necessary for entrepreneurship, which lends context to uncertainty and risk (Knight, 1921). These conceptualizations demonstrate that each opportunity is distinct and that past behavior cannot be relied upon to predict future results. The AMP approach has its detractors. First of all, market systems are not only strictly competitive; they can also involve antagonistic cooperation. The second is that resource monopolies may inhibit entrepreneurship and competition. The third is that market system activity is also influenced by fraud, deception, and taxes and regulations. The fifth is that entrepreneurship can take place in non-market social conditions where there is no rivalry, despite the fact that private and state enterprises differ from one another in this regard. Acs and Audretsch (1988) disproved the Schumpeterian claim that economies of scale are necessary for innovation in their empirical research. Recent explanations from the fields of management, psychology, sociology, and anthropology have gained momentum in response to the AMP's objections.

### D. Psychological Entrepreneurship Theories

The individual is the unit of analysis for psychological theories (Landstrom, 1998). These ideas place a focus on individual traits that characterize entrepreneurship. Three new attributes that have been discovered to be linked to an entrepreneurial inclination are discussed along with the need for achievement and locus of control personality traits. These include taking risks, being creative, and tolerating ambiguity.

### E. Personality Traits Theory

Personality traits are described by Coon (2004) as "stable qualities that a person shows in most situations." According to trait theorists, every person has innate abilities or traits that naturally lend themselves to being an entrepreneur. What are the precise traits/inborn qualities may be the most obvious or logical query on your thoughts. We are unable to identify certain qualities, hence the answer is not simple.

However, by highlighting the features connected to entrepreneurs, this model provides some insight into these traits or innate qualities. These features or innate potentials are revealed to us through the characteristics. In reality, elucidating personality features entails drawing conclusions from behavior.

Entrepreneurs exhibit a number of traits or actions, including a propensity for being more opportunity-driven (they prowl around), a high level of creativity and innovation, and a high level of management aptitude and business knowledge. Entrepreneurs are also transformation in nature, who are lifelong learners and use failure as a tool and springboard. They have also been found to be optimistic (they see the cup as half full then as half empty), emotionally resilient, and have mental energy. They are also hard workers, who demonstrate intense commitment and perseverance. They thrive on competitive desire to excel and win.

The trait model is still not supported by research evidence. The only way to explain or claim that it exists is to look through the lenses of one's characteristics/behaviors and conclude that one has the inborn quality to become an entrepreneur.

#### *F. Locus of Control*

Concentration on control is a crucial component of personality. In the 1950s, Julian Rotter made the initial presentation of the idea. According to Rotter (1966), locus of control is a person's perspective of the fundamental reasons of the occurrences in his or her life. Or to put it another way, a locus of control orientation is a viewpoint on whether the results of our actions depend on what we do (internal control orientation) or on circumstances beyond our personal control (external control orientation). In this situation, the entrepreneur's success is a result of both internal talent and external assistance. The first is known as the internal locus of control, while the second is known as the external locus of control.

The literature has documented empirical data that internal locus of control is an entrepreneurial trait (Cromie, 2000; Ho and Koh, 1992; Koh, 1996; Robinson et al., 1991). Internal locus of control was discovered to be positively correlated with the desire to start a business in a student sample (Bonnett & Furnham, 1991).

Additionally, Rauch and Frese (2000) discovered that compared to other groups, company owners have a marginally greater internal locus of control. According to other studies (Utsch et al., 1999), there is a high level of inventiveness, competitive aggressiveness, and autonomous reports. The same is said to apply to protestant views on risk-taking and work ethics (Bonnet and Furnham, 1991; Begley & Boyd, 1987).

#### *G. Need for Achievement theory*

The need for achievement theory by McClelland (1961) explained that humans have a need to succeed, accomplish, excel, or achieve while the trait model places more emphasis on enduring inborn qualities and locus of control on the individual's perceptions about the rewards and punishments in his or her life (Pervin, 1980). This desire to succeed and attain goals is what motivates entrepreneurs. While personality traits are not supported by research, there is evidence for the connection between entrepreneurship and achievement motivation (Johnson, 1990). The only convincing phonological component associated with the development of new ventures may be achievement motivation (Shaver & Scott, 1991). The urge for success, the ability to take risks, and the ability to tolerate ambiguity all had a positive and significant impact on one's propensity for entrepreneurship. (2007) Mohar, Singh, and Kishore. A locus of control (LOC) had a detrimental effect on an entrepreneurial drive, nevertheless. Additionally, it was discovered that the construct locus of control has strong relationships with traits including risk-taking, demand for success, and ambiguity tolerance. The most recent research on risk taking supports earlier empirical studies that show risk aversion decreases as wealth, or a person's net worth and expected future income, increases (Szipro, 1986).

Eisenhauer (1995) adds to Szipro's discovery by proposing that entrepreneurship success, by boosting money, can lower an entrepreneur's level of risk aversion and stimulate greater venturing. Therefore, in his opinion, entrepreneurship may be a cycle that never ends. More evidence points to some entrepreneurs having a modest love of risk (Brockhaus, 1980). These people favor the uncertainty of constant income over the dangers and difficulties of entrepreneurship.

#### *H. Sociological Entrepreneurship Theory*

The third of the main entrepreneurship theories is the sociological theory. The social setting is the main subject of sociological inquiry. In other words, society is traditionally the level of investigation in sociological theories (Landstrom, 1998). Four social contexts that are related to entrepreneurial opportunities have been identified by Reynolds (1991). Social networks are the first. Here, trust-promoting social connections and bonds—rather than opportunism—are the main priorities. In other words, in order to succeed, an entrepreneur shouldn't exploit others; rather, success results from maintaining goodwill toward others.

The second involves looking at the characteristics and conditions of people who have decided to become entrepreneurs, which he called the life course stage context. Ethnic identification is the third scenario. One of the key "push" elements that encourages someone to start their own business is their social background. For instance, a person's ability to advance depends on their social background. Marginalized groups may overcome all challenges and strive for achievement, motivated by their difficult circumstances to improve life. The term "population ecology" refers to the fourth social context. The notion is that the viability of enterprises is significantly influenced by environmental conditions. Among the environmental aspects that could affect survival are the political system, governmental regulations, clients, staff, and rivalry.

#### *I. Anthropological Entrepreneurship Theory*

The anthropological theory is the name given to the fourth main hypothesis. The origin, evolution, traditions, and beliefs of a group are all the subject of anthropology. In other words, the community's cultural heritage. According to the anthropological idea, it is important to study or take into account the social and cultural settings while starting an enterprise.

The cultural entrepreneurial model is the focus here. According to the idea, one's culture has an impact on new ventures. Cultural norms influence entrepreneurial attitudes like inventiveness, which influence behavior related to venture development. According to Baskerville (2003), a person's ethnicity has an impact on their attitudes and behaviors, while Mitchell et al. (2002a) found that culture can reveal specific ethnic, social, economic, ecological, and political intricacies in people.

#### *J. Opportunity-Based Entrepreneurship Theory*

Names like Peter Drucker and Howard Stevenson serve as the foundation for the opportunity-based theory. A comprehensive conceptual framework for entrepreneurship research is provided by an opportunity-based approach (Fiet, 2002; Shane, 2000).

Contrary to what the Schumpeterian or Austrian school holds, entrepreneurs do not initiate change; rather, they seize the opportunities that it (changes in technology, customer tastes, etc.) creates (Drucker, 1985). "This defines entrepreneur and entrepreneurship," he continues, "the entrepreneur always searches for change, responds to it, and exploits it as an opportunity." According to Drucker's opportunity construct, businesspeople tend to be more interested in the opportunities presented by change than the issues. Stevenson (1990) extends Drucker's opportunity-based construct to include resourcefulness. This is based on research to determine the differences between entrepreneurial management and administrative management. He concludes that the hub of entrepreneurial management is the "pursuit of opportunity without regard to resources currently controlled."

#### *K. Resource-Based Entrepreneurship Theories*

The Resource-based theory of entrepreneurship argues that access to resources by founders is an important predictor of opportunity-based entrepreneurship and new venture growth (Alvarez & Busenitz, 2001). This theory stresses the importance of financial, social and human resources (Aldrich, 1999). Thus, access to resources enhances the individual's ability to detect and act upon discovered opportunities (Davidson & Honing, 2003). Financial, social and human capital represents three classes of theories under the resource – based entrepreneurship theories.

#### *L. Financial Capital/Liquidity Theory*

According to empirical studies (Blanchflower et al., 2001; Evans & Jovanovic, 1989; and Holtz-Eakin et al., 1994), persons who have access to financial capital start new businesses more frequently. By implication, this theory contends that those with greater financial advantages are better equipped to gather the resources necessary to take advantage of entrepreneurial possibilities and establish a business to do so (Clausen, 2006). Other studies, however, refute this theory because they show that most founders launch new businesses with little to no funding and that financial resources do not significantly affect one's likelihood of being a budding entrepreneur (Aldrich, 1999; Kim, Aldrich, & Keister, 2003; Hurst & Lusardi, 2004, Davidson & Honing, 2003). The line of inquiry associated to the theory is what appears to be causing this apparent uncertainty. This theory argues that entrepreneurs have individual-specific resources that facilitate the recognition of new opportunities and the assembling of new resources for the emerging firm (Alvarez & Busenitz, 2001). Research shows that some persons are more able to recognize and exploit opportunities than others because they have better access to information and knowledge (Aldrich, 1999, Anderson & Miller, 2003, Shane 2000, 2003, Shane & Venkataraman, 2000).

#### *M. Social Capital or Social Network Theory*

Entrepreneurs are a crucial part of a bigger social network structure that makes up their opportunity structure (Clausen, 2006). "A person may have the ability to recognize that a specific entrepreneurial opportunity exists, but might lack the social connections to transform the opportunity into a business startup," state Shane and Eckhardt (2003). It is believed that having access to a wider social network could assist solve this issue.

Reynolds (1991) referenced social networks in his four stages of the sociological theory in a similar spirit. Stronger social linkages to resource providers facilitate resource acquisition and increase the likelihood of opportunity exploitation, according to the literature on this idea (Aldrich & Zimmers, 1986)

#### *N. Human Capital Entrepreneurship Theory*

Education and experience are the two underlying tenets of the human capital entrepreneurship paradigm (Becker, 1975). In order to understand differences in opportunity identification and exploitation, it is important to understand how knowledge acquired through education and experience is heterogeneously distributed across individuals (Anderson & Miller, 2003; Chandler & Hanks, 1998; Gartner et al, 2005; Shane & Venkataraman, 2000).



According to empirical research, human capital factors can increase opportunity recognition, lead to entrepreneurial success, and even help people become nascent entrepreneurs (Kim, Aldrich & Keister, 2003; Davidson & Honing, 2003; Korunka et al., 2003).

#### IV. THEORIES OF RISK OF ENTREPRENEURSHIP

- 1) Classical theory of entrepreneurial risk (representatives of J. Mill, N.W. Senior) identifies risk with mathematical expectation of loss, Which may occur as a result of the selected solution. The risk here is nothing but the harm caused by the implementation of this decision.
- 2) Neoclassical theory of entrepreneurial risk (representatives A. Marshall, A. Pigu) at the heart of her position that the entrepreneur works in conditions Uncertainties and entrepreneurial profits are a random variable. Entrepreneurs are guided by the following criteria: the size of the expected profit and the magnitude of its possible fluctuations. According to the neoclassical theory of entrepreneurial risk at the same amount of potential profit, the entrepreneur chooses an option related to a lower level of risk. Thus, representatives of neoclassical risk theory justified the position of "risk opponents," who believe that participation in gambling, lotteries, betting is not profitable.
- 3) Kasian Theory of Entrepreneurial Risk (Representative J. M. Keynes) drew attention to the tendency of entrepreneurs to accept high risk for greater expected profit. Keesian theory justified the need to introduce "risk costs" to cover the possible deviation of actual revenue from expected, and highlighted three main types of risk, Which it is advisable to take into account in economic life (risk of the entrepreneur or borrower, risk of the creditor and risk related to possible reduction of value of the monetary unit).
- 4) A fundamental approach to risk category is presented by F. Knight in "Risk, Uncertainty, and Profit." Knight distinguishes two types of risks: risks which objective probability is estimated and which can be insured (such risks become article of costs of production subtracted from profit), And risks, the objective probability of which is incalculable, which explain the existence of specific income of entrepreneurs.



Economic science considers three different approaches to risk understanding to be official:

- a) In the mass consciousness, the risk appears in the form of possible failure, danger, material and other losses that may arise as a result of the implementation of the chosen decision;
- b) Risk is understood as "a way of acting in an uncertain environment" or as "a situational characterization of the activity of its outcome and possible Adverse consequences in cases of failure. " Thus, risk is understood to mean either the possibility of loss or "good luck action";
- c) Risk is defined as the possibility of a positive (chance) and negative (loss) deviation in the course of an activity from the expected values.

#### V. CONCLUSION

The purpose of this paper was to examine the theories and research outcomes of entrepreneurship. From the above discussions, it is clear that the field of entrepreneurship has some interesting and relevant theories (ranging from economic, psychological, sociological, anthropological, opportunity-based, to resource based) which are underpinned by empirical research evidence. This development holds a rather brighter future for the study, research, and practice of entrepreneurship and theories of risk of entrepreneurship.





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