

# Factors of Production- Enterprise

4<sup>TH</sup> SEM, HONS, CC-9

PREPARED BY DR SURAJIT LET

## **(4) Enterprise (Organisation):**

### **Meaning:**

Organisation, as a factor of production, refers to the task of bringing land, labour and capital together. It involves the establishment of co-ordination and co-operation among these factors. The person in charge of organisation is known as an organiser or an entrepreneur. So, the entrepreneur is the person who takes the charge of supervising the organisation of production and of framing the necessary policy regarding business.

### **Functions or Role of the Entrepreneur:**

**The entrepreneur in modern business performs the following useful functions:**

#### **1. Decision-making:**

The primary task of an entrepreneur is to decide the policy of production. An entrepreneur is to determine what to produce, how to produce, where to produce, how much to produce, how to sell and so forth. Moreover, he is to decide the scale of production and the proportion in which he combines the different factors he employs. In brief, he is to make vital business decisions relating to the purchase of productive factors and to the sales of the finished goods or services.

#### **2. Management Control:**

Earlier writers used to consider management control one of the chief functions of the entrepreneur. Management and control of the business are conducted by the entrepreneur himself. So the latter must possess a high degree of management ability to select the right type of persons to work with him. But the importance of this function has declined, as the business nowadays is managed more and more by paid managers.

#### **3. Division of income:**

The next major function of the entrepreneur is to make necessary arrangement for the division of total income among the different factors of production employed by him. Even if there is a loss in the business, he is to pay rent, interest; wages and other contractual income out of the realised sale proceed.

#### **4. Risk-taking and uncertainty-bearing:**

Risk-taking is perhaps the most important function of an entrepreneur. Modern production is very risky as an entrepreneur is required to produce goods or services in anticipation of their future demand. Broadly, there are two kinds of risk which he has to face.

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Firstly, there are some risks, such as risks of fire, loss of goods in transit, theft, etc., which can be insured against. These are known as measurable and insurable risks. Secondly, some risks, however, cannot be insured against because their probability cannot be calculated accurately. These constitute what is called uncertainty (e.g., competitive risk, technical risk, etc.). The entrepreneur undertakes both these risks in production.

## 5. Innovation:

Another distinguishing function of the entrepreneur as emphasised by Schumpeter, is to make frequent inventions- invention of new products, of new techniques and discovering new markets—to improve his competitive position, and to increase earnings.

## Importance of Enterprise:

The above description indicates the supreme position of the entrepreneur in production. This is particularly true in the capitalistic or even mixed economy which is based on the price-profit system. In the socialistic economy, the state becomes the entrepreneur; the scope of private entrepreneur is extremely limited in such an economy.

It is to be noted that the importance of the entrepreneur has been declining with the growth of joint-stock business and state-undertakings. This is due to the fact that risk is borne by the shareholders and the day-by-day control of the business is generally in the hands of salaried managers or managing directors.

## A Separate Factor:

Some economists feel that the above entrepreneurial functions are no different from those of a particular and specialised form of labour. They point out that risk-bearing is not something peculiar to the entrepreneur.

Many types of labour have to take risk. For example, the miner or the air-hostess runs the risk of personal injury and life and most forms of labour run the risk of unemployment. But enterprise is a separate factor because the first three factors are substitutable to some extent, but the fourth factor is a specific factor and cannot be substituted by any other factor.

## Mobility:

Enterprise seems to be the most mobile of all the four factors. There is need to train labour for some specific task to be performed in a particular industry (say, road transport service, hotel

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business or computer operation). Once labour is trained for some specific task appropriate to some particular industry, it cannot be easily and quickly transferred to some other industry to do a completely different job. But the basic functions of the entrepreneur-organisation, management and risk-taking are the same in all industries.

Whatever the nature, duration and extent of economic activity and entrepreneur has to raise capital to organise the factors of production, and take certain fundamental decisions on what, how and where to produce. The efficient operation of an enterprise, irrespective of its nature and form, depends on certain human relations and human qualities such as initiative, leadership organisational ability and controlling capacity.

Very few people have these rare qualities. But those who have such qualities are able to operate effectively and efficiently in almost any industry.

## **Return:**

The return to the entrepreneur is profit. Profit is the reward for successful conduct of business.