

# The role of the entrepreneur in economics



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## Introduction

Whilst entrepreneurship has existed for centuries and has contributed greatly to the foundation of Anglo-American business development and growth, its serious academic study is of more recent origin.

The major reason behind this aberration possibly lies within the tenets of traditional microeconomic theory, which connects success and failure to essentially material causes and leaves little space for an essentially subjective and unquantifiable phenomenon like entrepreneurship.

International differences in living standards are, for example, attributed to “ differences in national endowments of labour, capital and natural resources, which in turn stem from differences over time in rates of population growth, saving and natural resource depletion.” (Welsh, 2003, P3) In fact the field of entrepreneurial activity was likened, as recently as 1983, by a Harvard University professor to an “ intellectual onion.” (Welsh, 2003, P3) “ You peel it back layer by layer and when you get to the centre there is nothing there but you are crying” (Welsh, 2003, P3).

Studies backed by empirical and statistical evidence however show the importance of entrepreneurial activity in creation of new jobs and of small and medium businesses. (Harper, 2003) Research also indicates the presence of a residual factor, which is extremely significant to the success of business enterprises, relates to the quality rather than the quantity of resources, as also with the differences in efficiency of resource utilisation. (Harper, 2003) Whilst such differences in quality and utilisation of resources are often associated with the quality of human capital that has been

developed through education and training, recently developed entrepreneurial theory also associates human capital with the entrepreneurial abilities of the population. (Harper, 2003)

The role of the entrepreneur is best gauged from a historical perspective, which in turn enables academic researchers and historians to realise that some people were right and others wrong at certain points of time. (Birley & Macmillan, 1997) Such people saw opportunity where others did not; whilst being in a minority they proved the majority wrong, and by doing so, altered the course of history. Much of the earlier neglect of the role of entrepreneurs has vanished over the last few decades. Entrepreneurs like Bill Gates, Steve Jobs, the founders of Google, and Richard Branson are much admired role models; individuals who have contributed immensely to modern day society. Silicon Valley is a globally admired phenomenon and entrepreneurial activity is happening faster, and with more capital behind it, than ever before.

The success achieved by the entrepreneurial community has led to their activity attracting enormous capital, not just in the United States, where stories of garage start-ups that have gone on to become billion dollar businesses have become part of folk lore, but also in many other parts of the globe. The market for venture capital offerings and Initial Public Offers has reached unprecedented heights; successful entrepreneurs have also invested heavily in other new businesses, backing competent people and supporting interesting ideas. (Welsch, 2003)

Much of the enthusiasm for supporting entrepreneurship, as well as its practice, has also arisen from the growth of some extremely successful

entrepreneurs into larger than life international icons, known worldwide for their enormously successful businesses, their social, economic, and political power, and, sometimes, their exaggerated lifestyles. L N Mittal the British steel tycoon, who hired the Versailles to celebrate his daughters wedding, provides an example of a successful modern day entrepreneur, ideally suited for a critical assessment of entrepreneurial practice, within its organisational, social, and personal contexts.

### Commentary and Analysis

#### *Mittal, the man, his life, and his company*

Mittal's life is a fascinating account of the progress of an entrepreneur who grew from very simple beginnings in a conservative, deeply religious, and orthodox business community family in Calcutta (now Kolkata) to the largest steel producer in the world and the richest person to reside in the United Kingdom. Born into a medium level business family, Mittal's early childhood, whilst austere, was not deprived. His father, a first generation entrepreneur was the owner of a steel mill in the central Indian province of Uttar Pradesh. Mittal grew up in Kolkata; where he first attended a local language school, and then went on to take a bachelor's degree in commerce, before joining his father's business. (D'Costa, 1999) Most members of the Rajasthani business community to which he belonged still believe in children getting into business to get practical experience immediately after obtaining a basic education, and Mittal did not even think of studying for an MBA like many of his peers. (D'Costa, 1999)

Working in the family business for more than a decade, Mittal learnt steelmaking in Indonesia where the company had purchased an old loss making steel plant. (Balakrishnan, 2003) Turning it around successfully, he focussed on buying other loss making steel plants and making them into viable units; he separated from his family in 1994 (Balakrishnan, 2003) and in an astonishing period of fifteen years built the largest steel company in the world. Mittal's strategy for growth was at once extremely simple and yet tremendously demanding. Concentrating on locating old, decrepit, and loss making steel mills, Mittal would procure them at bargain basement prices, modernise them with great cost effectiveness, increase their productive capacity and quality, and make them into efficient and viable units. (D'Costa, 1999)

Mittal or LNM, as he is called, started buying out old and rusty companies in the early 1990s. One of his earliest coups happened in 1992 when he was able to buy the 20 year old Sibalsa mill in Mexico for USD 220 million. (Balakrishnan, 2003) This purchase was followed by mills in Trinidad, Canada, East Europe, and Africa, acquisitions that stretched his business affairs from Mexico and Canada to Romania, Kazakhstan, the Czech Republic, Algeria and Indonesia. (Balakrishnan, 2003) Apart from being known to be immensely effective in driving hard bargains, Mittal also developed a multidisciplinary team trained to make the most of dilapidated nationalised rustbuckets that had been put on the block. Many of his team members came from SAIL, the resource strapped and loss making Indian public sector steel making company whose managers had extensive experience in extracting the most from obsolete and ill maintained

machinery at the least possible cost. Available for a fraction of the costs of western managers, these well knit teams of production experts would move in after the completion of an acquisition, put the plant into working order, increase its capacity significantly, train local managers, and move on to the next buy. (D'Costa, 1999) “ At Ispat Sidex in the Czech Republic, production climbed from 3.04 million tonnes to 3.65 million tonnes, a year after it was acquired.” (Balakrishnan, 2003) Again at the giant Karmet Steel Works in Kazakhstan, which Mittal bought in 1995, production rose from 2.2 million tonnes in 1995 to more than 5 million tons in a few years. (Balakrishnan, 2003)

Mittal's biggest acquisition occurred in 2006 when he took over controlling interest of Luxembourg based Arcelor, then the world's largest steel company, after a long drawn battle with the board of the target company. (Mittal Wins, 2006) Arcelor Mittal is now the largest steel company in the world. Producing 10 % of global steel output, the company operates in 60 countries, has more than 300,000 employees, and is ranked 39<sup>th</sup> on the Fortune 500 list. In 2007 it had assets of 133.6 billion US dollars, achieved sales of 105.2 billion US dollars, and achieved profits of 10.36 billion US dollars. That's a long way to come in 15 years.

Mittal's current lifestyle belies his middle class origins. He has an eye for luxury, a fascination for opulence and revels in making extravagant lifestyle statements. His houses in London are among the most expensive in the world, the weddings of his children have been explosions of lavishness, and he is not known for charitable work.

“ Mittal outscored billionaires like Donald Trump of US, luxury titan Bernard Arnault of France and Andrei Melnichenko of Russia with a \$60 million extravaganza in honour of his daughter Vanisha’s nuptials, Forbes magazine said in a report titled “ Billionaire Weddings.” Mittal family had sent out 20-page invitations in silver boxes, while 1, 000 guests were put up in a five-star Paris hotel for the five-day affair for marriage of Vanisha Mittal with Amit Bhatia in June 2004. A party was hosted at Versailles, while another event reportedly took place at a wooden castle temporarily erected in Parc de Saint-Cloud, Forbes said.” (Billionaire weddings, 2006)

Proud to be Indian and still the holder of an Indian passport despite many years in London, Mittal’s charitable gestures extend to setting up a sports academy and foundation to prop up India’s pathetic sports effort and gifting successful Indian sportspersons with extravagant money prizes.

Mittal’s business efforts have not been successful all the time.

“ There have been deals that have stayed out of reach along the way. A few years ago, the LNM Group was on the verge of clinching a deal to buy Sidor, a Venezuelan plant but found the prize snatched from it at the last moment. U. S. Steel which beat the LNM Group in the race for VSZ in Slovakia. It also beat Mittal to the draw for Sartid, a Serbian plant. His efforts to grab a share of the e-business pie also evaporated into cyberspace. He attempted to marry technology and steel by setting up an e-exchange where steel could be traded, but the effort was aborted. His venture capital fund which hoped to strike a gusher in the hi-tech sector also didn’t score any big multi-bagger hits.”(Balakrishnan, 2003)

*Assessment in terms of Entrepreneurial Theory*

Various economists have attempted to explain the process of entrepreneurship in different ways. Attempting to fill in a vital gap in the market process, economists like Schumpeter, Mises, Hayek, Shackle, Lachmann and others have tried to clarify entrepreneurship as “ the animating force of the market process, initiating each alteration of the existing pattern of values, plans, and expectations in the market, and carrying through the physical actions which bring about new values, plans, and expectations.” (Wood, 2005)

Successful entrepreneurship is the core of market development; not only does it bring about changes of existing to future strategies, estimations, and opportunities, but also the sighting and construction of fresh future conditions that are better than choices on hand and the concrete modification of present plans to each other and to the future. In essence the entrepreneur is often regarded as a connector; the person who detects the opening of gain between two separate market members, initiates required actions for purchasing from the vendor and selling to the buyer, and captures entrepreneurial profit. There however also exist other entrepreneurial tasks, which necessarily begin with the route of watchfully perceiving the incidence of opportunity before others, followed by finer details.

The definition of entrepreneurship laid down by Stevenson in 1983 as “ the pursuit of opportunity beyond the resources you currently control” is much in favour at Harvard University and takes account of both the individual and the



larger society of which s/he is a part. (Welsch, 2003) The individual identifies an opportunity that needs to be followed and then tries to obtain the required resources from the larger society for exploiting the opportunity. (Morris, 1998)

Entrepreneurship theory has in recent years been significantly enriched by inputs from numerous researchers who have tried to analyse the phenomenon from the social, organisational and personal contexts.

Welsch, (2003), states (from an investigation of histories and culture in forty countries) that (a) entrepreneurship flourishes in communities where resources are mobile (b) entrepreneurship is greater when successful members of a community reinvest excess capital in the projects of other community members, (c) entrepreneurship flourishes in communities in which the success of other community members are celebrated rather than derided and that (d) entrepreneurship is greater in communities that see change as positive rather than negative.

Some of these conditions are particular to Mittal. He comes from a desert trader community, the members of which moved out to other regions a couple of hundred years ago in search of opportunities and prosperity. Over time the Marwari community, of which he is now a much celebrated member, developed very strong kinship, hereditary business expertise, internal processes of information exchange, strong informal networks through arranged marriages, and the ability to seek, spot, and exploit opportunities. Trust in such societies is created through intra-community linkages and the growth of diverse collaborative ventures where preferential treatment is

usually provided to companies with same community ownership. Mittal himself married a wealthy moneylender's daughter from the same community and his initial business efforts in Indonesia were supported by the family business and other members of the community. (Richter, 1999) Whilst he separated his business from that of his family neither he nor his family have ever expressed rancour or talked publicly about the reasons for separation except to state that he wished to follow the international route whereas the other family members wished to grow in India. (Richter, 1999) He was the first to spot the potential available for commercial exploitation of old and loss making steel plants and could successfully put through a process of making them into productive and valuable assets. He has also had the confidence to constantly leverage his businesses taking on debt to fund the needs of acquisition and consolidation. (Harper, 2003)

Much of Mittal's entrepreneurial success in his chosen field is due to the organisation he moulded during the 1990s. Putting his trust in the people of his country rather than in creating an organisation with an international culture, Mittal stacked his team with production and finance people from India, the production people being drawn from India's old and obsolete public sector steel plants where maintenance and operations on paper thin budgets called for gallons of ingenuity and expertise, (Balakrishnan, 2003) and the finance people invariably being sharp chartered accountants from his community who could be trusted to drive the hardest bargain and maintain total confidentiality. This team, which he personally supervises and motivates, is close knit and expert in working in alien environments and setting up new organisations.

Whilst currently existing theories may be inadequate for comprehension of the vibrant interaction amongst entrepreneurship, the state, and external environmental factors, as well as the institution's capability to assist entrepreneurship and ensuing efficacy, it does differentiate between innovative and entrepreneurial organisations, entrepreneurship involving individuals building new organisations rather than individuals who are involved with established corporations. (Koepf, 2002) Mittal's empire has not been known for pathbreaking innovation of the type shown by Google or YouTube where entrepreneurship and innovation live closely in cosy comfort. It is known to stay with businesses in which its expertise has been built over years, and where success comes from production ingenuity and a vigilant eye on costs. Mittal's preponderance to stay with people with whom he is culturally comfortable and whom he feels he can trust and control also denies him access to the much larger talent pool available to organisations who hire only the best regardless of their origin. It also possibly explains the reasons behind the failures of ventures that attempted to go beyond the pale of steel production, for example the lack of success in his attempts to set up an e-business, an e-steel trading exchange, and a venture capital fund.

Entrepreneurship theory also essentially focuses on the entrepreneurial psyche, i. e. the fundamental mental and attitudinal differences that distinguish entrepreneurs from others. Peter Drucker and Frank Knight associated entrepreneurship with the willingness to take risks and spend time and capital in pursuit of ideas and convictions, especially in situations of true uncertainty about outcomes. (Welsch, 2003) Shackle, Lachmann, and other economists however theorise that the true entrepreneur does not bear

risk. (Wood, 2003) Entrepreneurs are actually so sure of the trueness of their future forecasts that they believe that the future will roll out exactly as they anticipate; whilst knowing that they operate in situations of uncertainty they have the confidence in their ability to make correct forecasts. Although this phenomenon has been interpreted by Mises to mean that entrepreneurs are oblivious to all else but profits, a consensus is building on the theory that whilst entrepreneurs are aware of uncertainties, they shoulder risks aside in their pursuit of their convictions.

Entrepreneurs are also associated with creativity, resourcefulness and strong self belief, desire for new ideas, openness to change, inherent competitiveness, motivation, energy, and openness to criticism. (Morris, 1998) Entrepreneurship is also associated with passion, commitment, and perseverance. Whilst it is improbable that all successful entrepreneurs are so gifted, many of them possess some of these qualities in abundance.

Research studies however do not pay much attention to issues like factors like luck and fortune in successful entrepreneurship and the need for the entrepreneur to be in the right place at the right time. Nor do they associate it much with greed, ambition, the tendency to cut corners, and to work on the periphery of rules and procedures. Microsoft has been accused time and again of stifling competition and has been involved in anti-trust legislation. Many questions have been raised about Mittal's donations to the labour party and the poor conditions of workers in his factories. Whilst much is made of the positive qualities of entrepreneurs it is but fair to recognise that ambition and greed contribute significantly to their mental makeup and

strong institutions and regulatory procedures are needed for society to benefit from the dynamism and vitality they bring to business.

## Conclusion

Mittal in his personal life is known to be a committed family man and has groomed his son to succeed him in future. Close associates say that he is hard working and driven by his bottom lines. Whilst detractors feel that he has been helped by the phenomenal increase in the demand for steel and that he was in the right place at the right time when large numbers of dilapidated steel plants were being put on the block, the enormous and sustained success of his enterprise proves that there is much to his success beyond simple luck. His organisation building capacity is said to be remarkable and he provides his engineers a stable and financially beneficial working environment.

Entrepreneurship theory is also about vision; the capacity to forecast future happenings with great perspicacity. (George & Zahra, 2002) This is where Mittal scores. More than anything else people associate him with extraordinary vision, the ability to see the need of the future and build his grand plan accordingly. (Balakrishnan, 2003) Whilst he has been distracted from time to time by plans for other businesses, his focus has been sharp on the need of the steel industry to consolidate and the inability of small and medium sized steel businesses to cope with the demands of the present and the future. Although the man is now regarded more as a business giant, concerned with the consolidation of his industry rather than with starting

new business ventures, he stands as a classic case of a successful entrepreneur and of the tenets of entrepreneurship theory.

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