

## Enterprise

The factor of production that organises the other factors to produce goods and services. The entrepreneur takes a risk in the hope of making a profit. The return is a profit or loss

### How Enterprise differs from other factors

- **It can earn a loss**
  - It is the only factor that can earn a loss due to fall in demand or excessive production costs.
- **Returns can vary**
  - The returns can vary enormously from supernormal profits to losses.
- **Return is residual**
  - Enterprise receives its return only after the other factors have been paid for. It is different from the other factors since their payments are agreed in advance. The returns to the other factors are contractual.

### Importance of Entrepreneurs in the Irish Economy

- **Creates employment**
  - Entrepreneurs need workers to produce goods/services. They provide viable employment opportunities for labour and help decrease unemployment.
- **Organises production**
  - Entrepreneurs organise the other factors of production into production units. Without entrepreneurs these factors of production would lie idle.
- **What to produce / prices to charge**
  - Entrepreneurs decide which goods and services are going to be produced and in what quantities, by anticipating consumer demand and deciding the prices to be charged.
- **Innovation**
  - Successful entrepreneurs may invest part of their profits into developing new commodities which will benefit society thereby improving the standard of living / quality of life.
- **Encourages further investment / Enterprise culture**
  - Entrepreneurs put both their money and skills into a business in the hope of making a profit and this may encourage further investment in the economy if successful.
- **Outlet for savers funds**
  - Entrepreneurs provide an investment outlet for savers funds, generating a return on savings.
- **Revenue for the government**
  - Entrepreneurs help generate revenue for the government through taxation revenues: corporation tax; VAT; income taxes.
- **Improve Balance of Payments**
  - If the goods produced by the entrepreneurs are exported this will help improve the balance of payments position.
- **Creates wealth**
  - Successful entrepreneurs create wealth, thereby leading to economic growth / increase in GNP.

## **Ways to encourage Entrepreneurship**

- **Enterprise education**
  - If the government encouraged greater emphasis on enterprise education in schools and colleges then more individuals may be willing to undertake the risks involved.
- **Taxation policies**
  - If the government maintains corporation profits tax rates then individuals may see the possibility of greater profitability. Similarly a reduction in VAT rates may increase demand for commodities and increase sales.
- **Government Policies / regulation**
  - If the government reduced the regulations involved in setting up a business or removed administration obstacles then more people might become entrepreneurs. Also, if they offer grants and other incentives for establishing a business then more people might do so / create a favourable business environment.
- **Labour market policies**
  - The availability of an educated / skilled workforce acts an incentive to individuals to establish a business. Investment in universities / 3rd level colleges.
- **Improved economic outlook / confidence in economy**
  - If the government, through its economic and social policies, presents a positive outlook about the economy then individuals may take more risk.
- **Develop infrastructure**
  - Investment in communications technology through the provision of broadband access will encourage people to start up business.
- **Improve competitiveness**
  - Currently the competitiveness of Irish industry is improving. If measures can be taken to improve competitiveness further then individuals may be encouraged to start a business e.g. more competitive quotes for communications, insurance, energy etc.
- **Availability of bank credit**
  - By stabilising the banks the government may make it possible for the banks to provide credit and so encourage people to borrow and establish a business.
- **Government initiatives**
  - Examples include: 'Action Plan for Jobs 2012' provides support for businesses struggling to access credit with €100m Micro Finance Loan Scheme, €150m Development Capital Scheme and a Loan Guarantee Scheme.

## **Risks faced by entrepreneurs**

- **Insurable Risks**
  - Those risks which can be mathematically estimated and an entrepreneur can insure against occurring. An insurance policy can be purchased to provide compensation in the event of loss
  - **Examples**
    - Theft of stock or cash.
    - Fire to premises/ damage to stock caused by fire.
    - Accidents to members of staff.
    - Accidents to members of the public

- **Non-Insurable Risks**
  - Those risks which an entrepreneur cannot insure against occurring. An insurance policy cannot be purchased to provide compensation /the entrepreneur suffers the entire loss
  - **Examples**
    - Loss of profit.
    - Bad decision-making.
    - Industrial relations disputes/Strikes
    - Changes in taste or fashion.
    - Entry of competition into the industry.
    - Changes in competitive conditions e.g. new legislation.

## **Profits**

- **Profit Levels**
  - **Normal Profit**
    - The minimum profit an entrepreneur must receive if they are to stay in production in the long run (what he/she could earn in the next best alternative employment)
    - It is the supply price of enterprise
  - **Supernormal Profit**
    - This is when an entrepreneur earns profit in excess of normal profit. If the normal profit for John is €40,000 but his business makes an accounting profit of €75,000 after costs, John would earn €35,000 supernormal profits
    - If this persists in the long run SNPs are an example of Quasi Rent
  - **Explicit Costs**
    - The regular costs associated with running a business. Eg wages, raw materials, insurance, utilities. Let's say for John these total €15,000 per year
  - **Implied Costs**
    - To earn normal profit a business must cover its explicit and implied costs
    - The implied costs are the earnings John could make in his next best alternative employment, which in this example is €40,000
    - The minimum John's business must turnover is €55,000 (40k normal profit/implied costs and 15k explicit costs) to cover all costs, both explicit and implied.
    - Anything earned in excess of 55k would be SNPs
- **Why entrepreneurs do not all earn the same level of profits**
  - This is due to a rent of ability. Some are better than others and can earn a supernormal profit or an economic rent. The entrepreneur cannot be replaced easily by another because of talent and business acumen possessed. If the entrepreneur works in a more competitive industry he/she may earn lower profits than an entrepreneur in a less competitive industry.

- **Importance of Profits for the economy**
  - **Encourage risk taking.**
    - Profits are a prerequisite for encouraging entrepreneurs to undertake the risks inherent in business. Without profits no firms would supply goods or services.
  - **Indicate the best use of resources / consumer demand**
    - Profits are an indication to entrepreneurs what goods and services consumers want (demand) and hence indicate what areas are the most suitable for the use of scarce resources.
  - **Encourage investment**
    - When profits are earned this may encourage entrepreneurs to invest further in ventures.
  - **Provide funds for expansion.**
    - Entrepreneurs may use the profits earned to invest in their existing business to expand their existing activities / diversify production etc.
  - **Continuity of production.**
    - If normal profits are not earned then an entrepreneur will cease operating hence they are essential to ensure that production continues.
  - **SNP reward innovation**
    - Those entrepreneurs who earn SNP's do so because they may be more efficient and or because they are innovative or because they are minimizing their costs of production
  - **Source of revenue for the government.**
    - Any profits earned by entrepreneurs are taxed (with exceptions) by the government and become a source of revenue for the state. They can use these profits to further develop the economy.
  - **SNP's may promote Mergers / Takeovers**
    - The existence of SNP's within some industries may entice large multinationals to takeover these profitable business so that they increase their overall profits / gain a foothold in the Irish market e.g. rumours about AIB.

### **Factors Influencing the location of a business**

- **Within Countries**
  - **Transport infrastructure**
    - Firm may require good efficient transport infrastructure to get their goods to the market, source raw materials etc. This may include a good road network and possible closeness to a seaport and/or airport.
  - **Access to water supplies / power**
    - A manufacturing firm will require the uninterrupted supply of power and the supply of clean water.
  - **Land for expansion / cost of land**
    - If the firm plans to extend it will require land at a reasonable price for expansion.
  - **Planning permission**
    - Firms must ensure that appropriate planning permission is available from the local authority.

- **Environmental regulations**
  - A particular industry may be subject to certain environment regulations and these must be checked with the appropriate authority.
- **Workforce availability**
  - The firm will require a skilled / English speaking workforce.
- **Government incentives**
  - There may be tax incentives / grants towards location available if the firm locates in certain areas of the country. The rate of Corporation Profits Tax in Ireland is one of the reasons why MNCs locate here. Other incentives may be available to attract firms i.e. less restrictive planning permission etc.
- **Proximity to the market**
  - A firm which relies on a steady flow of consumers must locate close to the market i.e. a boutique.
- **Proximity to the raw materials**
  - A firm which requires the usage of large amount of raw materials must locate close to the availability of these e.g. a power generating station.
- **Other:** Availability of social infrastructure / availability of back-up services (insurance / banking etc) / Government regulatory framework (bureaucratic red-tape, regulations).
  
- **Across Countries**
  - **Access to EU market / Member of the euro currency**
    - Firms will locate where they have access to free movement of their goods within the EU. Membership of the euro makes payment for international transactions within the euro zone easier.
  - **Good industrial relations**
    - Firms want industrial peace so that production can continue uninterrupted by industrial action.
  - **Attractiveness of return on investments**
    - Firms will locate where the rate of return on their investment is sufficiently good to attract them to a particular location.
  - **Stable economic climate / economic growth**
    - Countries that are performing well / are experiencing economic growth offer increased business confidence, larger domestic markets and this may encourage firms to locate there.
  - **Low wage / production costs**
    - Firms may locate to regions where wage rates are low and / or production costs are low.