

PERSPECTIVES IN ENTREPRENEURSHIP



Boris Urban *Editor*

# Frontiers in Entrepreneurship

 Springer

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Editor

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 Springer

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The edition is for countries outside Africa. Please order the book from Springer-Verlag [www.springer.com](http://www.springer.com)  
A parallel edition is published by Heinemann Publishers(Pty) Ltd., Johannesburg, South Africa for sale on  
the African continent.

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ISBN 978-3-642-04501-1                      e-ISBN 978-3-642-04502-8  
DOI 10.1007/978-3-642-04502-8  
Springer Heidelberg Dordrecht London New York

Library of Congress Control Number: 2010925354

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*Cover design:* WMXDesign GmbH, Germany

Printed on acid-free paper

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## ACKNOWLEDGEMENTS

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The series editor, Boris Urban, wishes to thank and acknowledge the contributing authors, John Luiz, Wim Naudé, Jose Barreira, and Shepherd Dhilwayo who have so willingly shared information of mutual concern and interest regarding research for this first book of the series. These dedicated professionals have promoted integrity in all their writing, research and scholarship, which has culminated in a high-quality scholarly text.

Several of the chapters are based on previous article publications that have been revised to accommodate the thematic discussions on each of the specialised topics. Chapter 4 is based on, and partly extends, six earlier UNU-WIDER research papers exploring the linkages between entrepreneurship and economic development (see Gries and Naudé 2008a, 2008b, 2008c; Lazonick 2008; Naudé 2007; Naudé 2008). Through these papers the author has benefited enormously from discussions with many participants at workshops at the Helsinki School of Economics, the Max Planck Institute of Economics in Jena, at UNU-WIDER in Helsinki and at the Free University, Amsterdam, and in particular with Zoltan Acs, José Ernesto Amorós, Erkkö Autio, Samee Desai, Thomas Gries, Arto Lahti, Bill Lazonick, Enno Masurel, and Roy Thurik. They carry no responsibility however, for this chapter's shortcomings and omissions. We acknowledge the support of Economic Research Southern Africa.

We would like to thank the entire team at Heinemann Publishers who, with entrepreneurial insight, commissioned this original work for an environment where it has much relevance. A special mention goes to Claudia Bickford-Smith who initially promoted the project, and worked tirelessly to encourage the series; to Ute Spath at Heinemann Publishers, and the various reviewers who have elevated the series by promoting the book to an international audience; and to Silvia Raninger for her dedication to meeting deadlines and personal assistance in project-managing this series.

We wish to acknowledge entrepreneurship educators everywhere who support enterprise and entrepreneurship education, and demonstrate a keen eagerness to promote best practice in entrepreneurship.

Finally, our heartfelt thanks to the entrepreneurship academic community who have generated knowledge, and whose intellectual contributions have made this series possible.



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# PREFACE

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The series *Perspectives in Entrepreneurship: A Research Companion* provides an authoritative overview of specialised themes in entrepreneurship. Each of the four books presents the conceptual framework and foundations underlying a specialist field of scholarship in entrepreneurship. The series is inspired by the dearth of higher-level texts available in South Africa, failing to encapsulate the rigorous research evident in the growing field of entrepreneurship internationally.

The content is driven by a judicious selection and interpretation of key knowledge set in context by introducing and delineating major topics previously not discussed in-depth in traditional entrepreneurial texts. A blend of theoretical and empirical evidence is presented that collectively demonstrates the convergence of thinking on a particular theme. Identifying and evaluating the most seminal and impactful scholarly research on different subject areas where entrepreneurship is at the core, serves to achieve this convergence. By applying a theoretical lens to central issues 'about entrepreneurship' rather than focusing on practical issues of 'how to', the series has a conceptual outlook with specialist areas in detailed narrative.

The book is deliberately structured to add value to learners who are undertaking secondary programmes in entrepreneurship by building on basic entrepreneurship principles and theory. The series builds on fundamental entrepreneurial texts. Each book provides a valuable knowledge base for educators, third year and postgraduate students, researchers, policy makers, and service providers.

Individuals undertaking entrepreneurship research will find this series indispensable with its broad analysis and interpretation of the latest research. The range of topics in each chapter provides a valuable knowledge base for educators, post-graduate students, researchers, policy makers, and service providers.

Moreover, the series reflects the multidisciplinary nature of entrepreneurship and supports the notion that entrepreneurship is a growing part of the fabric of educational institutions around the globe. The books add value by adding to the evolving body of knowledge on entrepreneurship, in that:

- The series may be used in conjunction with other disciplines, programmes, and texts, for instance strategy, organisational behaviour, human resource management, business management, and economics.
- The series is also recommended as an additional text where a skills-based approach needs supplementing in terms of theoretical underpinning.

- Through the incorporation of recent research and analytical frameworks, a comprehensive reference work is available reflecting the specialist topics.
- Educators inside and outside of faculty who support entrepreneurship and demonstrate a keen eagerness to learn and know from best practice will benefit from the series.

Pedagogical features: Each series begins with an introduction of the theory and principles delineated for each of the specialised topics. The narrative is structured to allow for in-depth elucidation of topics under discussion. Each chapter is supported by comprehensive references, reflecting the depth of analysis and interrogation of each topic.

End of chapter material includes website materials. The web design reflects an open source, interactive pool of entrepreneurial knowledge - centralised by a consistently updating web site. New changes in the operating entrepreneurial environment and research trends will be updated through the site. Areas of investigative entrepreneurial interest will be highlighted on the web site to provide thought for future research.

## Overview of the series

### **Book 1: Frontiers in Entrepreneurship**

Chap 1: Early thinking and the emergence of entrepreneurship

Chap 2: Entrepreneurship as a discipline and field of study

Chap 3: Economic perspectives of entrepreneurship

Chap 4: Entrepreneurship in the field of development economics

Chap 5: Creating value and innovation through social entrepreneurship

Chap 6: The entrepreneurial organisation

Chap 7: Theoretical perspectives on culture and entrepreneurship

### **Book 2: The Entrepreneurial Mindset**

Chap 1: Entrepreneurial human and social capital

Chap 2: Entrepreneurial cognitions

Chap 3: Entrepreneurial intentions and motivations

Chap 4: Entrepreneurial opportunity recognition

Chap 5: Entrepreneurial learning and decision making

Chap 6: Entrepreneurial behaviours and leadership

### **Book 3: Technology, Innovation, and Entrepreneurship**

Chap 1: Innovation links with entrepreneurship

Chap 2: Innovation strategies

Chap 3: Innovation and growth

Chap 3: Technopreneurship

Chap 4: Innovation and intellectual property

Chap 5: Entrepreneurship and the knowledge economy

**Book 4: Entrepreneurship as Societal Phenomena**

Chap 1: Entrepreneurship and development

Chap 2: Government and entrepreneurship

Chap 3: Women entrepreneurship

Chap 4: Entrepreneurship education

Chap 5: International entrepreneurship

Chap 6: Entrepreneurial ethics

**Book 1: Frontiers in Entrepreneurship**

The purpose of the first book in this series of titles on advanced entrepreneurship is to provide insight into how entrepreneurship evolved and has emerged as a field of enquiry in its own right. By encapsulating the breadth of theories supporting each of the specialised topics, the eclectic mix of chapters aims to offer a historical overview and place entrepreneurship in the context of the wider knowledge realm.

Each chapter reflects specialised knowledge in entrepreneurship, where systematic theory and an established body of literature exist. The content for each chapter has been selected to facilitate the shift in paradigm from traditional management to entrepreneurial thinking. Indeed the distinguishing characteristics of entrepreneurship from other forms of business and management principles are emphasised.

Based on articles which are considered to be seminal works by leading researchers, and which serve as cornerstones of each specialised topic on entrepreneurship, each chapter aims to provide a solid knowledge base narrative, thereby adding relevance, providing clarity and a structured overview on the selected entrepreneurship themes. The blend of theoretical and empirical evidence which is presented collectively demonstrates the convergence of thinking on a particular topic.



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# INTRODUCTION

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Initially, the origins and development of entrepreneurship are interrogated from a historical and chronological perspective. Through the incorporation of recent research and analytical frameworks, various models of entrepreneurship and their underpinning theories are explored to elucidate the domain of entrepreneurship.

The mix of chapters in this first book in the series allows for focused and relevant research to evolve in order to develop the field and add to the body of knowledge on entrepreneurship.

Various theoretical contributions are examined which provide the *raison d'être* of entrepreneurship.

Entrepreneurship as an academic discipline is interrogated, and criteria against which a field is judged to be an established domain are explored. Participation in entrepreneurial studies is examined by comparing different countries and institutions and their offerings, which are analysed in terms of various pedagogical perspectives. An African perspective is provided, with consolidations illustrating the current state of affairs in terms of entrepreneurship offerings at local Higher Education Institutions. Entrepreneurship as embodied in different paradigms is investigated, and because the field is still evolving in terms of ontology, a multi-disciplinary approach is recommended.

Entrepreneurship is then investigated as the interplay between the economy, the entrepreneur, and the role of institutions. The importance of the environmental/institutional framework is highlighted since it fashions the incentive structures facing entrepreneurs. This chapter provides critical insights on how economists have neglected the topic of entrepreneurship despite the pivotal role that institutions and reward structures play for entrepreneurship to flourish.

Since there are substantial national consequences for entrepreneurial activity and as a global phenomenon entrepreneurial activity absorbs a substantial amount of human and financial resources, the relevance of the entrepreneur in the discussion of economics is further explored. The role of the entrepreneur in the economic development process is interrogated by interpreting large data sets which effectively illustrate the difference in entrepreneurial activity between countries. These two chapters provide evidence on the convergence of thinking on the significant effect of key structural and individual factors influencing entrepreneurship, and the bi-directional causality of this process.

The next two chapters provide a juxtaposition of two perspectives which entrepreneurship is often viewed from – that is: corporate entrepreneurship vs. social entrepreneurship. These two broad themes illuminate how varied entrepreneurship is and the application of entrepreneurial practices for different purposes. Based on classical and contemporary readings, these divergent approaches to entrepreneurship elucidate just how pervasive entrepreneurship is in different fields and can create value for profit and non-profit organisations.

Corporate entrepreneurship describes the entrepreneurial mindset of individuals who operate in a corporate structure. Various perspectives of corporate entrepreneurship are provided and lessons are offered in terms of how organisations can adopt an entrepreneurial focus.

Social entrepreneurship is discussed, which serves the broader purpose of illuminating how entrepreneurship is significant in dealing with social issues. Like business entrepreneurs, social entrepreneurs initiate and implement innovative programmes, and even though they are differently motivated, the challenges they face during start-ups are similar to those faced by business entrepreneurs.

This first book in the series ends by identifying the role of culture in entrepreneurship. Cultural antecedents to entrepreneurship are identified, and links between cultural dimensions and higher levels of entrepreneurship are investigated.





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## CHAPTER 1

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# EARLY THINKING AND THE EMERGENCE OF ENTREPRENEURSHIP

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*Jose Barreira*

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### 1.1 Introduction

The body of entrepreneurship research is eclectic, stratified, and divergent, and it would be an ambitious task to present in this chapter an all-encompassing robust entrepreneurial historical theory. The multi-faceted and interdisciplinary nature of entrepreneurship sets constraints on such a grandiose and complex task.

The *raison d'être* of entrepreneurship (Murphy, Liao, and Welsch 2006), entrepreneurial detection, derives from convergences of numerous kinds of resources. The origin and development of the term 'entrepreneur', examined by Vérin (1982), revealed that it secured its current meaning in the seventeenth century. Although 'entrepreneur' was used before Cantillon, it was Cantillon who suggested a definite conception of the entrepreneurial function as a whole as pointed out by Schumpeter (1954:222).

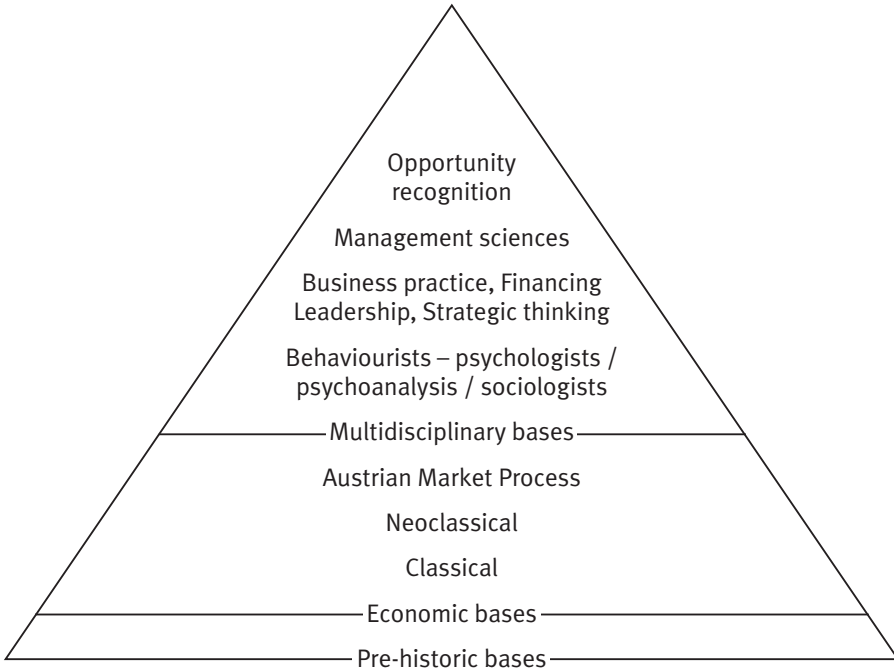
Despite theoretical agreement on the importance of context in the study of entrepreneurship, empirical research in recent years has ignored historical settings in favour of focusing on entrepreneurial behaviour and cognition, thus neglecting the need for studying empirical evidence in an ostensibly objective manner. In keeping with Joseph Schumpeter's plea of rediscovering history and relevance in the study of entrepreneurship, this chapter attempts to trace the evolution of scholarly literature on entrepreneurship's historical perspective.

Joseph Schumpeter believed that history was essential to the study of entrepreneurship, a perspective (Jones and Wadhvani 2007) that has been lost in recent scholarship.

This chapter presents a basic synopsis of trade and entrepreneurial thought in the ancient era, progressing through the Middle Ages to the starting point of

entrepreneurship interest, found during the industrial revolution, with a brief explanation of classical, neo-classical, and Austrian Market Process.

This chapter then analyses the development of the social scientific literature on entrepreneurship since the field first emerged as an area of academic interest in the 1940s to the multidisciplinary bases of the present.



**FIGURE 1.1:** Entrepreneurship theory building bases

*Source: Adapted from Murphy, Liao, and Welsch (2006)*

## 1.2 Ancient era

From the fall of Rome (circa 476 CE) to the eighteenth century (Murphy *et al.* 2006), there was virtually no increase in per capita wealth generation in the West until the advent of entrepreneurship.

The notion that the entrepreneurship mechanism is always present in communities has long been posited by Baumol (1990), although the degree of its manifestation is contingent on varying dominant logic and reward systems.

Ancient Rome with all its glory and grandeur never developed a complex economy. Rome was an agrarian and slave based economy whose main concern was feeding the vast number of citizens and legionaries who populated its empire.

The staple crops of various grains, olives (olive oil), and grapes (wine) were among the most important products in the ancient civilised world. In lieu of a monetary tax, farmers could donate surplus crops to the government, allowing both Republican and Imperial rulers to maintain popularity with the masses by distributing free grain, and feed the legions at no direct monetary cost. Farmers had little incentive to increase productivity, since more crop translated into more taxes. Grain doles increased Roman citizens' dependence, and contributed as one of the factors that would lead to the expansion and conquests of grain providing provinces of Egypt, Sicily, and Tunisia in North Africa.

Ancient Rome around 50 BCE developed the essential avenues for entrepreneurial activity. The degree of entrepreneurial activity was however a function of regulations, social controls, and institutions. The accumulation of personal wealth, although desirable (Murphy *et al.* 2006) was acceptable as long as it did not involve direct participation in industry or commerce.

Commercial entrepreneurial activity, a domain populated by former slaves and other freed men, involved loss in prestige, an important form of political or social capital. Romans were either classified as patricians or plebeians. The nobles despised trade as 'degrading and vulgar'. This severely impeded a lucrative and viable way for merchants to achieve prosperity.

Wealth generation (Murphy *et al.* 2006) came from three primary sources:

- **Landholding:** Someone of status based on the hierarchy of the feudal system held property and rented to others
- **Usury:** Interest from loans, and
- **Political payment:** Public treasury – taxes, indemnities – going into private hands.

The production and transportation of foods dominated the trading industry, the modern conception of arbitrage (i.e. a bundle of inputs able to be bought at a lower price than the price at which it can be sold in another context) was not widely practised.

Rome was teeming with a rich diversity of traders such as goldsmiths, girdle makers, fruit-sellers, fishmongers, butchers, bath attendants, polishers, porters, shopkeepers, labourers, and fortune-tellers. In the midst of the poorer plebeians, women worked as the equals of men. A woman called 'Eumachia' owned her own brickyard in Pompeii.

The prosperity of the Roman Empire generated a need for luxurious and exotic imports for its citizens. Silks from China and the Far East, cotton and spices from India, Ivory and wild animals from Africa, vast amounts of mined metals from Spain and Britain, fossilised amber gems from Germany, and slaves from all over the world discovered that all roads did indeed 'lead to Rome'.

The significance of manufacturing and industry was comparatively insubstantial to that of agriculture. Mining was the largest industry in ancient Rome, providing raw materials (marble, stones) for the enormous building

projects. Various metals (iron, lead, and tin) for weapons and tools were also required to assist in the conquering of the western world. Enormous quantities of gold, silver, bronze, and copper were mined throughout the empire to mint coins and create jewellery.

Small-scale manufacturing plants which turned out hand-made pottery, glassware, weapons, tools, jewellery, and textiles were established throughout the cities and towns along established trade routes on land and sea.

Ancient era elucidation reveals that (Murphy *et al.* 2006) contextual forces fashioned entrepreneurial stimulus into materialisation in the form of owned property or social status. Significantly, many not possessing or permitted to such resources were hard-pressed to acquire them.

Although this entitlement principle persists in later eras, social status and owned property became less permanent and reliable. This swing in social perceptions highlights the shift of prehistoric entrepreneurial activity towards classical economic thought (Murphy *et al.* 2006).

### 1.3 Medieval era

Around 500 CE (Murphy *et al.* 2006), wealth generation became problematic with the clash between the right to own property and influence of the church in the largely agrarian economies of the early Middle Ages.

In medieval China (1300-1500 CE) entrepreneurial exploration and discovery was discouraged (Baumol 1990). During periods when the empire encountered financial difficulties, wealthy subjects' properties were liable to be seized. This situation led to those who had capital resources not to invest in visible outlets. Substantial rewards in prestige and wealth were set aside for those who advanced to ascend the ladder of imperial examinations. As with early Romans, respectable social standing discouraged commercial entrepreneurial activity as a practice of wealth accumulation.

However, Europe in the early Middle Ages (500-1000 CE) experienced radically original expressions of entrepreneurship (De Roover 1963). The ownership of property and a high social status did not assure success. Pre-emptive military activity and warfare were pursued primarily for power and wealth. The increased conflict in feudal systems provided value to property such as castles and land, which created a source of economic gain for combatant barons. Emerging cities created parturition for entrepreneurship, particularly among the merchant class who procured raw material and marketed the finished goods (Cornelius, Landstrom & Persson 2006).

Mergers, competition, and acquisitions were articulated as war, and creative destruction (Schumpeter 1934) was actual destruction. Accordingly, innovation and entrepreneurship manifested itself frequently as apparatus of war (e.g. rounded castle turrets). During this time entrepreneurial opportunities for aggressive attainment of resources formed part of entrepreneurship (Baumol

1990). This efficient reallocation of resources throughout the social system did not add to the gross domestic product (Murphy *et al.* 2006).

Church pacification reduced the proliferation of warfare in the later Middle Ages (1000-1500 CE). This led to the proliferation of entrepreneurial activities such as engineering, architecture, and farming resulting in lucrative rewards for those participating in such activities (Murphy *et al.* 2006).

The non-acceptance of usury by the church led to entrepreneurs beginning to necessitate specialised knowledge to recognise other types of opportunities, such as water-driven mills (e.g. for producing flour). Numerous monks ran such mills and made technological advances in milling, possibly motivated by a need to save time for monastic endeavours. With technological developments entrepreneurship became increasingly more economically rewarding and socially acceptable.

The Ancient Greek civilisation initiated tax farming (Hebert and Link 1988:16), a manifestation of entrepreneurship. This undertaking involved bidding for the collecting and paying of taxes to the ruling monarch, in exchange for the exclusive right to collect those taxes. This carried the risk that the tax collected could be below the amount bid for the right to collect it. Nonetheless, it frequently was greater, resulting in a pure profit differential.

The categorisation of occupations such as usury, tax farming, and lending as damnable by the church (De Roover 1963) resulted in a puritan lifestyle, and its relation to capitalistic activity contained essential components reflected in Weber's (1930) 'Protestant ethic'.

Three categories of 'honourable' merchants were identified:

1. Importers-exporters (mercantiarum apportatores)
2. Storekeepers (mercantiarum conservatores)
3. Manufacturers (mercantiarum imitatores seu melioratores).

In due course, numerous theologians actually became economic performers by assisting to maintain monopolies, usury, pawn brokering, or speculating out of business and 'defending' the masses from exploitation. The term 'entrepreneur' has been used in the French language since the twelfth century (Cornelius *et al.* 2006), however the operating feudal system in the European world at the time hindered the development of innovation and entrepreneurship. Progressively, during the Middle Ages, the situation changed, particularly in countries like France, Italy, and Southern Germany, which became the vital mercurial forces behind European economic development.

## 1.4 Pre-industrial revolution

The emergence of entrepreneurship as a prominent force, per capita income, and wealth generation grew exponentially in the West. In the 1700s a 20% growth was recorded, 200% in the 1800s, and 740% in the 1900s (Drayton 2004).

Throughout the sixteenth and seventeenth centuries, entrepreneurial activity amplified, resulting in experiential or skill-based knowledge becoming instrumental for remedying market inefficiencies or contributing new solutions, goods, and services (Murphy *et al.* 2006). These ensured and strengthened the way artisans made a living. However, this practice of using specialised knowledge to discover opportunities was long established in the Far and Middle East before being introduced in the West.

The Far and Middle East had a highly developed commerce. Arab society had an exalted status of the merchant, common language, and geographical positioning central east-west location of the caliphate, which created an optimal climate for entrepreneurial activity (Russell 1945:422).

At the School of Salamanca, Western theologians posit that international commerce was a means for humanity to get together and promote a common brotherhood (Baldwin 1959). Nevertheless, the selling price should be a 'just price', where sufficient profit should only cover expenses and merchant costs. International trade of excessive goods and services could lead to social benefits to nations, thereby reconciling mercantilism and the church (Fanfani 1942:112-113) and present entrepreneurship as an ethically purposeful activity for modern times.

Before the eighteenth century, the proportion of the general public engaging in entrepreneurial activity was quite insignificant in comparison to modern times.

Opportunities via a religious order or craft guild, were presented to those who were able to effectuate specialised knowledge as innovation or entrepreneurship (Murphy *et al.* 2006). These avenues of precedent nurtured the spirit of innovation, flash of genius, or relevant knowledge.

In order to mitigate unbridled competition and social disorder, makeshift pricing systems did emerge, although they came in the form of archaic rents, tithes, and feudal dues. Religious influence, which stymied the evolution of capitalism in the Middle Ages (De Roover 1963), affected business conduct and modality. As an example the slow development of the banking industry was a direct cause of the church's condemnation of usury.

Certain Middle Age economic and social tenets that were prevalent and influential in entrepreneurial thought were eradicated with the dawn of classical economics (Murphy *et al.* 2006). Novel ways to be entrepreneurial were revealed in the context of a developing economic system. The emergence of economic competition and freer trade led to commerce being an occupation that could contribute to, and not threaten, the good of the commonwealth.

## 1.5 Classical economic bases

Originating in Adam Smith's well-known work *Inquiry into the Nature and Causes of the Wealth of Nations* (1776), 'classical' economic theory dominated

the intellectual evolution of economic science – an economic theory that did not stress the entrepreneurial purpose in the economy. Only a few economists were successful in shattering that trend, such as Jean-Baptiste Say (1767-1832), Jeremy Bentham (1748-1832), and John Stuart Mill (1806-1873).

By the eighteenth century, the systematic elimination of feudalism was well under way, resulting in severely changed legal and institutional conditions. This created the flourishing popularity of the joint stock company and the development of a sophisticated banking system (Wennekers & Thurik 2001, 1999) where innovation and entrepreneurship prospered, thereby accentuating the eroding guild power base.

Britain by this time had developed effective and efficient property rights supported in common law, and introduced an innovative protection method of property of knowledge through its patent laws. This in turn spurred Britain's technological leadership from 1750 to 1850. This leadership created an abundance of skilled labour and entrepreneurs, which resulted in intense implementation and application of new innovations.

The popular belief that entrepreneurship emanates from the science of economics must be qualified. As an empirical phenomenon, enterprise can be traced back to the beginnings of organised trade, but the pedigree of the conceptualised subject is clearly identifiable in the work of Richard Cantillon (1755), JB Say (1841), and Jeremy Bentham (Mathias: 2001).

Scrutinising the works of the first two authors usually identified as the pioneers of the field – Cantillon (1755) and Say (1803; 1815; 1816; 1839) – reveals that their interests were not solely in the economy but also in companies, business management, venture creation, and business development (Filion 1997).

Irish-born French banker Cantillon (1680-1734) was the first person to formally introduce the concept of entrepreneurship into economic literature, thus formulating the concept of entrepreneurship as an economic meaning and the entrepreneur as playing a role in economic development (Cornelius *et al.* 2006). Today, Cantillon would have been described as a venture capitalist. Published 31 years posthumously, his work (Cantillon 1755) defined divergence between supply and demand as an opportunity to buy cheaply and sell at a higher price, thereby realising a profit. Thus, he introduced the concept of opportunity-seeking, accompanied by shrewd economic management in order to obtain optimal yields on invested capital (Filion 1997).

Historical perspectives have emulated a role in the theoretical development of entrepreneurship since its inception. JB Say highlighted the expeditious rise of the eighteenth century English textile industry above the earlier dominance of German cotton products and Belgian woollens. The industrial revolution produced two distinctive revolutions, the first in production techniques (mechanisation), and the second in systems organisations (the factory system). Say attributed to the theoretical distinction between 'scientific' ability and 'entrepreneurial' skill (combining factors of production) and postulated that the supply of entrepreneurship was critical in deciding the growth and wealth of a

nation's economy (Jones & Wadhvani 2007). Adam Smith and David Ricardo established no particular or distinctive role for entrepreneurship, as Say had, in pulling together factors of production (Jones & Wadhvani 2007).

Entrepreneurs were alert to such opportunities, and thus stabilised (or created equilibrium to) the market system. Cantillon's original premise was that efficiency falls short in explaining non-uniform entrepreneurial activity: a significant input/output ratio necessitates observable and consistent outputs.

This resulted in the nascency of the classic economic movement, which set the stage for economic equilibrium models, by promoting the development of economic insight and dealing with uncertainty (Murphy *et al.* 2006).

In a context of supply and demand-based causes and effects, classical economic thought accentuates the foresight needed in a closed model of economic variables (e.g. productivity, prices, labour supply, and competition).

During this period, various scholars such as Quesnay, Baudeau, and Turgot introduced developing theories on the importance of uncertainty (i.e. unknown outcomes) and risk (i.e. when the probability distribution of outcomes is known) within the classic economic movement (Murphy *et al.* 2006).

Coordination and innovation became associated with entrepreneurial activity, as social status and ownership were no longer seen as prerequisite for entrepreneurship. Entrepreneurship 'sans' ownership involved manufacturers, craftsman, and merchants – a classic example was farmers taking and owning contracts from landlords for cultivation and economic exploitation of their land (Murphy *et al.* 2006).

Classical theory eulogised the merits of competition, free trade, and specialisation, (Ricardo 1817; Smith 1776), elevating economics to a new level of sophistication within the emergence of Britain's industrial revolution, an epochal period of transition, which initiated in the mid-1700s and concluded in the 1830s (Murphy *et al.* 2006).

Entrepreneurs began to amass wealth and displace aristocrats, as they were able to detect more niches and opportunities presented to them by the discontinuity dynamics to economic activity during the classical movement, due to competition across industries (e.g. cotton vs. corn) (Murphy *et al.* 2006).

The economic dichotomous classification (landlords and/or aristocracy) was reclassified under the classical movement into (Murphy *et al.* 2006):

- Landowners (spending rents on luxuries)
- Capitalists (saving profits and reinvesting)
- Workers (spending wages on necessities).

From the above categories, three modes of production were articulated:

- Land
- Capital
- Human industry.



Human industry referred to voluntary production, generating value independent of ownership, which went beyond the entrepreneur as a mere coordinator. The classical movement (Say 1803) emphasised the coordinating role of the entrepreneur in the production and distribution of goods in a competitive marketplace. However, human industry introduced risk as a function in procuring materials, a labour workforce, and participating in the market.

The classical economic movement illuminated economic thought and established the following (Murphy *et al.* 2006):

- A paradigm shift from the complexity of subjective assumptions of value towards a macro perspective explicating an overall market activity objectively
- Principles which divided and characterised labour and production across industries
- Widely adopted approaches to measuring economic differentials, as a result of the proliferation of foreign trade employing various currencies in the early 1800s
- The notion that national specialised production offers comparative advantage over other nations, enabling entrepreneurs to seize the resultant arbitrage opportunities
- The formal economic concepts of distribution and value
- The key concept of diminishing returns, where the exploiting entrepreneur moves on (entrepreneurial harvest exit strategies) after the utility of the current venture expires.

The classical economic movement introduced some entrepreneurship-related postulates and can be summarised as follows (Murphy *et al.* 2006):

- Equilibrium presumptions are incongruous with short-run prices and production costs
- Innovative entrepreneurial processes were not describable
- Exchange value differed from use-value of goods/services
- Subjective or projected value of goods/services is significant
- Relations between market value and demand were not traceable.

Classical economic thought, Cantillon's notions of supply, demand, and short-term prices restored relevance and emphasis on the role of the entrepreneur.

## 1.6 Neo-classical economic theory

Approaching the end of the 1800s, diminishing marginal utility had emanated as a way to explain economic activity, initiating subjectivist frameworks outlining relations among people, not objects (Menger 1871). This resulted in cultural and socio-political circumstances in the context of economics to become increasingly primary drivers of market system problems and phenomena.

Unique awareness and understanding of such circumstances were included as explanations of entrepreneurial activity. The transformation mechanism of resources into novel products and services was seen as an integral part of entrepreneurial activity.

Economic thought expanded in sophistication during the neo-classical movement. Economic behaviour was described as momentary and of having a higher degree of voluntarism. Demand for products and services was delineated by a downward-sloping curve (decreasing) across time, with supply sloping upward (increasing). The intersection point of the curves indicated an equilibrium level of price or value. This economic Marshall (1890) model was a theoretical pivot-point of early elementary economics textbooks. Within this model framework, the entrepreneur matches resource allocation decisions in relation to system component changes such as increasing/decreasing supply, increasing/decreasing supply demand, and other equilibrium conditions (Murphy *et al.* 2006).

The prevalent entrepreneurial premise of capital accumulation diminished, and vacillated towards the focus on novel combinations of existing or possessed resources (Schumpeter 1934).

Arthur Cole, a Schumpeter contemporary, defined entrepreneurship as the utilisation by one productive factor of the other productive factors for the creation of the 'economic good'. Cole (1946) created something new – entrepreneurial history – in his paper *An Approach to Entrepreneurship*. By 1948 Harvard University and Cole had their Research Centre in Entrepreneurial History, and the first avatar as Explorations in Entrepreneurial History. Cole (1946) made it clear that entrepreneurship had to be built into economic theory, for “without an entrepreneur nothing happens in economic life”.

Entrepreneurship involved consciously implementing innovation, achieving novel combinations, and introductions of new goods, markets, modes of production, organisational forms, or sources of raw materials.

Schumpeter described the practice of innovation as 'creative destruction' due to the conflict and irregularity created. It was up to other market actors or imitators to subsequently bring about economic equilibrium.

The neo-classical economic principles dominated economics and commerce for at least 60 years by supplementing economic thought with the following premises (Murphy *et al.* 2006):

- All economic occurrences were based on pure exchange, translating into an optimal ratio, and transpiring in a closed economic system
- The closed economic system consisted of:
  - Exchange participants
  - Exchange occurrences
- The impact of results of the exchange on other market actors
- The significance of exchange, combined with diminishing marginal utility, expanded entrepreneurship's domicile in the neo-classical economic movement

- With price (signposts to guide entrepreneurial activity) as an indicator of exchange, the notion of opportunity exploitation was introduced, taking advantage of favourable price ratios inconspicuous to other entrepreneurs
- The social dynamics of economic systems allowed entrepreneurs into accepting a price ratio as a requirement to staying in the market.

The neo-classical economic movement introduced some entrepreneurship-related postulates that can be summarised as follows (Murphy *et al.* 2006):

- Allocations of resources and other decisions are subjective decisions
- Entrepreneurial decision making can be guided by diminishing marginal utility
- Arbitrage opportunities are highlighted by price differentials in the market
- Entrepreneurship includes novel markets, production methods, raw materials sources, or organisations.
- Entrepreneurs create and respond to changes in the environment.

However, the plenteous magnitude and depth of entrepreneurial behaviour and practice eventually exceeded the neo-classical movement.

The emphasis on production quantity (efficiency maximisation) at the expense of quality constricted the hypothetical amplitude of entrepreneurial innovation, as quality has a direct bearing on entrepreneurial effectiveness.

Neo-classical economics oversimplifies economic-system occurrences by formulating conditions for rational allotment of resources within an equilibrium model, thereby ignoring actual complex economic circumstances (Hayek 1940, 1945).

The rational allotment of resources implicitly postulates complete market knowledge on the part of entrepreneurs, resulting in optimal courses of economic action being followed. This fundamental assumption was shown to be illusive because perfect knowledge leads to imperfect knowledge: rational economic conduct gives birth to uncertainty (Menger 1934).

Entrepreneurship and innovation are not congruent with perfect competition and equilibrium, specifically when entrepreneurial innovation faces analogous competitive circumstances.

A neo-classical equilibrium-based framework necessitates varying levels of information, which is not logical when casting imperfect knowledge with the assumption of perfect competition, resulting in all economic actors choosing to engage in the homogeneous activities, where market actors thereby fail to ascertain the value of forecasting the activity of competitors.

Some neo-classical entrepreneurship shortcomings are as follows (Murphy *et al.* 2006):

- Collective demand neglects the uniqueness of individual-based entrepreneurial activity
- Future value of innovation outcomes does neither reflect use nor does it exchange value

- Rational resource allotment contradicts the complexity of market-based systems
- Efficiency-based performance does not explicate innovation and non-uniform outputs
- Known means/ends and perfect or semi-perfect knowledge fail to explain uncertainty
- Perfect competition curtails innovation and entrepreneurial activity
- It is impossible to track all inputs and outputs in a market system
- Entrepreneurial activity is destructive in an ordered economic system.

## 1.7 Austrian Market Process (AMP)

By the end of the nineteenth century, the European 'entrepreneurship' discussion found an audience in the United States, an emerging industrial power. Economists such as Francis Walker, Fredrick Hawley, and John Bates Clark continued with the development of entrepreneurship theory. Conceivably the most prominent author among the US economists was Frank Knight (1885-1972), who, in his thesis *Risk, Uncertainty and Profit* (1921), makes a separation between risk and uncertainty. Uncertainty is uninsurable and unique, and Frank Knight maintains that the skills of the entrepreneur are found in the ability to handle the uncertainty that exists in any given society.

The idealistic state of tracing all relevant information in an economic system, in order to perceive the phenomena within it, was acknowledged as impractical by the neo-classical movement. Specific non-observable entrepreneurial knowledge, which accentuated their activity, made an empirical framework inappropriate.

The AMP movement rationalises these occurrences logically rather than empirically. For the first time (Murphy *et al.* 2006) the pivotal question of how to accumulate knowledge required to discover opportunities, and produce correct decisions when it is dispersed idiosyncratically throughout the system, was addressed. The explanation framework shifted to concentrate on individual-level factors within the context of system-level ones.

The movement concentrated on subjective definitions of value and higher potential for dynamic movement in economic indices such as interest rates or prices, rekindling the relevance of Cantillon's earlier ideas of subjective determination of value and forecasting supply and demand.

The movement introduced a logical dynamic reality introducing the premise that as knowledge is made known throughout the market, via price information, innovation occurs, market needs are satisfied by entrepreneurs, and system-level modifications occur.

Entrepreneurial innovation know-how would be effectuated if it was believed that such action would lead to procure some individually defined benefit. This entrepreneurial activity was not demonstrated by the neo-classical economic

model which assumed perfect competition, carried within a closed system, traced perceptible fact data, and inferred principles of repeatable observation.

The AMP movement disputed that circumstances and assumptions are repeatable, constantly leading to the identical results in an economic system. It proposed that entrepreneurs generate value when incentivised to use episodic knowledge.

The AMP movement comprised of three principal conceptualisations (Kirzner 1973):

- The first is the arbitraging market, where opportunities emerge and are acted on by certain market actors as others either overlook or undertake sub-optimal activity
- The second is the heightened alertness to profit-making opportunities by some entrepreneurs, who discover and make a market by acting upon it
- The third concept is that ownership is distinct from entrepreneurship following Say (1803) and Schumpeter (1934:74-75). Entrepreneurship does not necessitate resource ownership, which leads to the extension of the contextual idea of uncertainty and risk (Knight 1921).

The AMP movement illustrates that every opportunity is unique and that past activity cannot forecast future outcomes reliably, that there are immutable elements of uncertainty and risk, which can only be managed and minimised.

Market actors' decisions are primarily used to interact and compete to produce modification in outputs, prices, production methods, and resource allocation. This highlights (Kirzner 1973) that individual market actors' choices contain error, yield plans that are either optimistic (unrealised) or don't generate expected value (realised).

Thus in terms of risk, entrepreneurial decisions can either "miss the boat" or "sink the boat" (Dickson and Giglierano 1986). This concept enables an extensive, action-reaction perspective on entrepreneurial drive, goal setting, alertness, and decision-making.

This premise brought forth the importance of entrepreneurial alertness, and illuminated the importance of novelty in opportunity recognition, which lack programmable features and entrepreneurial circumstances.

Traditional economic principles (Hayek 1945) were hard-pressed to explain the relevance of the individual's subjective intentions and beliefs. The relevance of alertness is incisive in opportunity recognition, market actors have imperfect knowledge about opportunities, perfect knowledge is impossible, creating competition for higher levels of knowledge as a system-level requirement (Hayek 1948; Kirzner 1973).

Competition introduces new information, which is continually assessed by entrepreneurs and forms the bases for decisions making. Although complex in nature, a rudimentary principle posits that entrepreneurs have different choice options, which are either more or less effective than other entrepreneurs' decisions. This produced for the first time a framework where individual

entrepreneurial activity was articulated more effectively than in the previous economic movement.

This allowed for the explanation for the freedom of choice across a range of options (e.g. selection of a particular marketing strategy or innovation) from an entrepreneur's perspective, implying varying levels of value for those options. In other words, the AMP movement allowed the establishment of linkages between the entrepreneur's employed means and desirable outcomes, highlighting the relative nature of the value of an option.

The idea of 'pure entrepreneurship' (Kirzner 1973) was introduced, which allowed for the introduction of entrepreneurship as innovation 'sans' resources other than knowledge. Knowledge as a resource is not easily monopolised, resulting in entrepreneurial discovery as inherently competitive (Hayek 1948).

The Austrian Market Process movement introduced some entrepreneurship-related postulates and can be summarised as follows (Murphy *et al.* 2006):

- Entrepreneurs discover opportunities created by errors and inefficiencies in the market
- Entrepreneurs continually face substantial uncertainty
- Entrepreneurial alertness formulates an explanation for entrepreneurial opportunities recognition
- Coordinating activity and knowledge is sufficient for entrepreneurship
- Entrepreneurship is constructive in an economic system.

The Austrian Market Process movement builds on the neo-classical ideas (Schumpeter 1934), and elevates entrepreneurship as a driver of market-based systems.

The Austrian Market Process movement is not without its criticism, for one it does not adequately deal with the delineation on competition, such as resource monopolies as classic entrepreneurial activity, which seek to limit competition by pre-emption, thereby frustrating free competition. The pursuit of monopoly possession is a legitimate market activity and is alien to the competitive process described by the AMP movement.

AMP highlights the inefficiencies of centralised market systems characterised by high regulation, which could be likewise utilised to ventures, maintaining a monopoly because they are inefficient for the same reasons.

Other market forces such as the role of contracts (Hayek 1948), fraud, force, and hostile take-overs are not adequately and effectively contextualised. Private organisations often use guideline violations or deception as strategic enablers. Government organisations may engage in similar activity via the imposition of regulations, taxes, and controls.

With no explanations forthcoming from AMP on such components, AMP fails to distinguish effectively between the affordances of private vs. state-owned enterprises to use deception or force vis-à-vis their competitors, as they compete actively with one another in the market.

This excessive reliance on pure market forces constricts the hypothetical space for entrepreneurship to occur, specifically in contexts that are not traditionally market oriented (social entrepreneurship), which are substantial and prevalent in modern modes of entrepreneurship.

Some Austrian Market Process movement shortcomings are as follows (Murphy *et al.* 2006):

- Purely competitive market systems are utopian due to the existence of antagonistic co-operation
- Competition and entrepreneurial activity can be impeded by resource monopolies
- Other factors such as fraud/deception and controls/taxes also add to market system activity
- Private and state firms can be entrepreneurial although they have different affordances
- Entrepreneurship can present itself in non-market social situations with/without competition.

Additional movements have evolved from the AMP movement's basic premises and invalidations. The current developmental state in the field of entrepreneurship draws from discipline-based areas of economics, sociology, management, marketing, and psychology (Murphy *et al.* 2006).

## 1.8 Multidisciplinary entrepreneurship contributions

Throughout history, entrepreneurial theory has been enriched by non-linear developments (e.g. international commerce, demand curves, competition as a discovery mechanism, and the opportunity construct) offering new conceptualisations of what it means for something to be entrepreneurial.

By the mid-twentieth century, the extensively used economics-based approaches in describing entrepreneurship started to abate. Not only was economics used to describe entrepreneurial behaviour but environmental and human factors were also contemplated.

The behaviourists' contribution to entrepreneurship developed from various sources, including works from psychoanalysts, psychologists, and sociologists. Max Weber (1930) was one of the inaugural authors to exhibit an interest in entrepreneurs. Weber discovered a value system, where entrepreneurs acted as innovators, self-reliant individuals whose obligation as business leaders transmitted a source of formal authority that influenced entrepreneurial behaviour.

David McClelland is recognised as the 'originator' of the behaviourists' movement. His earliest work concentrated on the historical study of the great civilisations, discovering explanations for their existence. McClelland (1961) discovered a number of elements, the principal one being the presence of heroes

in literature. These heroes conquered obstacles and pushed the limits of the possible, which led to succeeding generations modelling their behaviours on their model heroes. McClelland associated this immense need for achievement with entrepreneurs, and developed his definition of an entrepreneur as “someone who exercises control over production that is not just for his personal consumption. According to my definition, for example, an executive in a steel-producing unit in the USSR is an entrepreneur” (McClelland 1961:65).

Although associated with the field of entrepreneurship, McClelland’s (1971) work also identified the need for power. He generally focused on managers of large organisations, and never made a connection between the need for achievement and the decision to launch, manage, or own a business (Brockhaus 1982:41).

Filion (1997) sites numerous researchers (Durand and Shea 1974; Hundall 1971; Schrage 1965; Singh 1970; Singh and Singh 1972) who studied the need for achievement and its effect on entrepreneurial success, but did not make any conclusive findings.

**TABLE 1.1:** Characteristics most often attributed to entrepreneurs by behaviourists

*Source: Hornaday 1982; Meredith, Nelson et al. 1982; Timmons 1978. In Filion (1997)*

<ul style="list-style-type: none"> <li>• Innovators</li> <li>• Leaders</li> <li>• Moderate risk-takers</li> <li>• Independent</li> <li>• Creators</li> <li>• Energetic</li> <li>• Tenacious</li> <li>• Original</li> <li>• Optimistic</li> <li>• Result-oriented</li> <li>• Flexible</li> <li>• Resourceful</li> </ul>	<ul style="list-style-type: none"> <li>• Need for achievement</li> <li>• Self-awareness</li> <li>• Self-confidence</li> <li>• Long-term involvement</li> <li>• Tolerance of ambiguity and uncertainty</li> <li>• Initiative</li> <li>• Learning</li> <li>• Use of resources</li> <li>• Sensitivity to others</li> <li>• Aggressive</li> <li>• Tendency to trust people</li> <li>• Money as a measure of performance</li> </ul>
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The emergence of comparing entrepreneurs to other types of people, in terms of psychological traits, such as willingness to accept risk under conditions of skill-based performance, the need for achievement, and the desire to accept responsibility in complex situations were deduced as factors emanating from individual idiosyncrasy (McClelland 1961). These selected approaches to describing entrepreneurs (Cunningham and Lischeron 1991) have been widely criticised and have generally produced disappointing findings (Low and MacMillan 1988; Gartner 1990).



In addition to psychological characteristics (Shaver and Scott 1991) and marketing factors (Hills 1994), this movement also showed factors that exist at environmental levels and affect entrepreneurial performance.

Researchers such as Reynolds (1991), and Gnywali and Fogel (1994) include the following factors:

- New technology and markets
- A level of modernisation
- Ecological niches
- Organisational populations
- Governmental policies and regulations, such as public policy guidelines and legal or institutional frameworks.

## The Lewinian framework

The multidisciplinary movement's conceptual model that built itself on prior multifaceted movements and not solely on the economic base, reflects a 'Lewinian' conceptual framework:

$$B = (P, E)$$

This formula (Lewin 1935) outlines behaviour through an interaction between the person (P) and the environment: behaviour (B) such as entrepreneurial activity is determined by the interaction between person (P) and environment (E).

The effect is apparent in several entrepreneurship conceptualisations and research propositions. This framework has taken on various forms, because of varying theory bases describing individual contra-environmental factors. As an example, individual cognition techniques describe the way entrepreneurs pursue information, but only in certain contexts, such as when self-efficacy and experience are high (Cooper *et al.* 1995).

The extent to which entrepreneurs identify opportunities and pursue relevant information is largely subject to the unique skills, insights, and aptitudes of entrepreneurs (Venkataraman 1997). Entrepreneurs lacking experience use irrelevant decision models to assist in information acquisition, with the opposite being the case for experienced entrepreneurs (Gaglio 1997).

This new entrepreneurial description framework allows for many types of individual, environmental, and other factors to transact. However, there is considerable contention within the movement regarding which factors or interactions hold notable explanatory dominance (Low and MacMillan 1988).

## 1.9 Environment vs. the individual

The multidisciplinary movement speculates that environment-based approaches discount crucial individual or firm characteristics because the environmental

impact emphasises the extent to which individuals or firms deliberately adapt themselves successfully (Hannan and Freeman 1977; Whittaker and Levin 1976). However, there are numerous occasions when some firms develop into a form that is not viable, irrespective of the nature of the environment.

Macro environmental factors affect entrepreneurial emergence but do not dictate firm evolution, which can explain the reduction of incorporation rates (Reynolds 1991) based on the density of existing firms.

Zucker (1989) assumes that this relation of opportunity deficiency exacerbates competition and assists in entrepreneurial failure among ventures with common orientations involving mutual resources or goals.

Proposed interactional frameworks fail to explain such occurrences, including social network posits (Powell 1990), which show the facilitation of entrepreneurship as a proxy for authoritative knowledge and bestow definition to the construct of entrepreneurial opportunity (Hills *et al.* 1997).

There have been researchers who have suggested that entrepreneurial emergence be described in parallel with Darwinian natural selection terms (Friedman 1953). This notion is criticised in that the propitious outcomes for firms and environments are not always mutual, and some firms succeed despite the asymmetry (Winter 1964). Further criticism stems from the assumption that environment should be a fairly stable essential principle for natural selection. With varying degrees of environmental chaos, which influences the necessary criteria for venture fitness, optimality for entrepreneurial ventures becomes dubious.

Unpredictable and inconsistent environments hinder efficiency, resulting in both long and short range aspects, coercing firms to continually respond to environmental transformations, compete with one another, or even collaborate with contention for their collective continuation (Laumann and Knoke 1987).

Criticism around individual and environmental models, describing an interaction between two levels of analysis or perspectives that complement one another, reveals that it is unclear for researchers which model to employ more intensely, a person-centric or environmentally based models (Eckhardt and Shane 2003; Low and MacMillan 1988).

Critics suggest a requirement for a fuller cohesion of the multi-factors, imitating previous approaches (Hayek 1948; Mises 1949) by concentrating on resource distribution (e.g. relationships, information) and its part in entrepreneurial discovery.

## 1.10 Entrepreneurship as a distinctive domain

Entrepreneurship is a relatively modern field of research (Cornelius *et al.* 2006) that has accumulated extensive interest beyond the familiar areas of management studies during the last few decades. In the 1970s and 1980s, huge structural changes occurred in society worldwide, e.g. economic recessions, oil crises,

technical progress, an increasing globalisation of economies, and unprecedented political changes that highlight stronger market-oriented ideologies.

This necessitated an independent movement in building entrepreneurship theory that does not procure directly from other areas of research (e.g. sociology, psychology, and strategic management). This movement has begun to distance itself from the 'types' of individuals or environments (Eckhardt and Shane 2003) with an increased emphasis on context and on the entrepreneurial process (Cornelius *et al.* 2006).

The degree of the empirical research in entrepreneurship has been refined and improved (Chandler & Lyon 2001), with researchers introducing theoretical perspectives, such as the resource-based view or the evolutionary approach, to enhance their comprehension of the discipline (Davidsson, Low & Wright 2001).

This new theory concentrates on the convergence of resources (including knowledge) stressing the importance of the emergence and existence of entrepreneurial opportunities (Shane 2000). The entrepreneurial opportunity construct is seen as independent of firms, entrepreneurs, or environments because it transcends them (Murphy 2005).

An opportunity-based approach to entrepreneurship research supplements person-centric approaches and exposes limitations in equilibrium and closed-system assumptions (Kihlstrom and Laffront 1979). In addition, the opportunity-based approach is more integrative than the Lewinian-based framework.

Optimisation in the neo-classical systems perspective, regarding inventory, profits, market demand, and strategic decisions obligates activity in one area of a system to influence programmatically activity in other areas (Arrow 1974; Baumol 1993). Disequilibrium is however implied when a novel entrepreneurial discovery is made. These discoveries are outside the existing system's boundary conditions, thereby throwing the implicit equilibrium assumptions of person-centric approaches based on statistically reliable variables into disarray.

Entrepreneurial opportunity detection entails multiple resource development. Therefore entrepreneurship theory must be reasonably harmonious with such growth. The occurrences of opportunity detection defy methodical calculation and are an unknowable antecedent (Baumol 1968; Hayek 1942; Popper 1957). The entrepreneur's expectation of surprised opportunity detection makes it difficult to explain entrepreneurial discovery (Kirzner 1997; Yates 2000).

This enigma and its suggested hypothetical 'middleground' have led to a stream of contemporary entrepreneurship research focusing on opportunity detection (Eckhardt and Shane 2003; Fiet 1996; Murphy and Shrader 2004; Shane 2000).

In the multidisciplinary movement the following are the current essential areas for conceptual development (Murphy *et al.* 2006):

- Conceptual framing
- The opportunity construct
- Episodic knowledge
- Statistical methods.

### (1) Conceptual framing

Entrepreneurship research in the 1980s exploded and permeated into almost all of the soft and management sciences. This development was marked by two pivotal events:

- The publication of the first-ever entrepreneurship encyclopaedia (Kent 1982)
- The first major entrepreneurship research annual conference (the Babson conference).

The Babson conference (Frontiers of Entrepreneurship Research), and the ICSB (International Council for Small Business) conference highlighted the predominant areas of entrepreneurship research focus, Welsch (1992) was able to identify 27 areas of interest (see table 1.2).

**TABLE 1.2:** Main themes of entrepreneurship research

*Source: Filion (1997)*

Behavioural characteristics of entrepreneurs Economic and demographic characteristics of small businesses Entrepreneurship and small business in developing countries The managerial characteristics of entrepreneurs The entrepreneurial process Venture creation Business development Risk capital and small business financing Business management, recovery, and acquisition High technology firms Strategy and growth of the entrepreneurial company Strategic alliances Corporate entrepreneurship or intrapreneurship Family business Self-employment Incubators and entrepreneurship support systems Networks Factors influencing venture creation and development Government policies and venture creation Women, minorities, ethnic groups, and entrepreneurship Entrepreneurship education Entrepreneurship research Comparative cultural studies Entrepreneurship and society Franchises
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Conceptual framing is illustrated by the notion that entrepreneurial discovery exists at all levels of an economy (i.e. entrepreneur, firm, industry, system). Each instance involves an integrated connection in which the individual and environment participate (Venkataraman 1997).

Multiple research viewpoints conform to these levels given the event's traceability across levels of analysis (Gartner 2001; Low and MacMillan 1988). In-depth research has led to the construction of an understanding and sophistication within perspectives and created irrelevancies as well as masked uniformity between perspectives.

The consequent conceptual stratification in entrepreneurial literature will influence future research (Bull and Willard 1993). Research variables are being operationalised in a manner that they are appropriate within a perspective but complementary across other perspectives, despite all perspectives focusing on the same event (Gartner 2001).

This leads to an obstruction in an effort to define a conceptual domain, which can be seen where individual-level entrepreneurship research routinely procures from system-level approaches (Kaish and Gilad 1991) even though their reciprocal natures lead to imperfect theoretical models (Gartner 1988; McMullen and Shepherd 2006).

The research-supported development of entrepreneurship into a multidisciplinary paradigm has led to a parse into academia, finance, and practice fields. Sub-fields have subsequently developed within these domains (Welsch and Maltarich 2004).

Examples abound such as in (Murphy *et al.* 2006):

- Academia, including teaching methodologies (e.g. lecture, case study, distance learning)
- Reciprocal programmes (e.g. community involvement, incubators)
- Levels of education (e.g. undergraduate, MBA, outreach)
- Entrepreneurial finance, which includes
  - lending (e.g. informal sources, banks)
  - investment (e.g. venture capitalists, business angels), and
  - internal financing (e.g. revenue generation, bootstrap financing).
- The practice of entrepreneurship, which includes
  - high-technology firms
  - network marketing
  - social entrepreneurship
  - serial entrepreneurship
  - franchising
  - ethnic entrepreneurship, and
  - women in entrepreneurship.

Despite the magnitude and heterogeneity, a theoretical background based on entrepreneurial opportunities occurs within these areas and maintains relevance

across them. Thus, an enduring paradigm has emerged based on the opportunity recognition construct, asseverating a larger authority in the entrepreneurship field as contemporary hypothesis and contradictions continue to emanate.

## **(2) The opportunity construct**

An opportunity-based approach accommodates an enlarged conceptual environment for entrepreneurship research (Fiet 2002; Shane 2000), as internal and external factors participate to objectively explain an emerging construct. An opportunity-based approach is in sync with entrepreneurial phenomena that are not new merely in terms of combination (Schumpeter 1934), but inherently new in an essential sense (e.g. formerly unfathomable knowledge). This sort of newness, which is impossible to derive from a priori of inputs and outputs (Kirzner 1997), can be forecasted to an acceptable level, given that a certain configuration of components, such as episodic prior knowledge, (Murphy 2004; Shane 2000) is known.

An opportunity-based approach alleviates dilemmas that frustrate stern environment-based or person-centric approaches by surmising that the required information for entrepreneurial discovery can never be in the purview of a lone mind or situation at once (Hayek 1948; Simon 1957).

The opportunity construct goes beyond particular characteristics of firms, entrepreneurs, and environments, thereby maintaining its value of analysis across conflicting perspectives. This cohesion that surpasses levels of analysis, integrates reciprocal factors more fully (e.g. firm orientation, entrepreneurial alertness, system-level regulatory controls). It accepts the possibility for opportunities (Shane and Venkataraman 2000) and entrepreneurial errors (Kirzner 1997) to open the way for further ones to fulfil the same utility.

There is, however, a fear that as long as a Lewinian framework sets boundary conditions for entrepreneurship research (Eckhardt and Shane 2003; Murphy 2004) opportunity-based research approaches are likely to be smothered.

## **(3) Episodic knowledge**

The increased facilitation of entrepreneurial discovery (Shane 2000), is directly associated with knowledge being augmented by empirical scholarship, demonstrating that the procurement of knowledge is pivotal to entrepreneurship theory and practice.

Researchers such as Cornelius, Landstrom, and Persson (2006), believe that entrepreneurship research is somewhere between the applied or technical, and the mature and theoretical approach to knowledge accumulation.

With the field of entrepreneurship moving towards maturity, the following characteristics should become evident (Cornelius *et al.* 2006):

- An intensifying internal alignment with researchers citing the work of other entrepreneurship researchers
- A consolidation of topics within the field, i.e. some topics will crystallise as key questions

- The emergence of an identifiable research community led by core influential researchers
- An increased level of specialisation among groups of researchers converging on particular theoretical research issues.

Various knowledge convergences included episodic factors such as guidance, relationships, and experience, thus allowing researchers to operationalise idiosyncratic knowledge. The utilisation of non-parametric statistics (Murphy 2005), may lead to forecasting opportunity discovery or compute opportunities as units of analysis based on entrepreneurs' unique prior knowledge (Shane 2000).

Entrepreneurship research has heightened the significance of knowledge and networks, (Hills *et al.* 1997) which help mitigate levels-of-analysis questions as they imply a scale for gauging relations via structural equivalence (Burt 1983; Granovetter 1985) in the opportunity discovery process. This understanding provides continuous and quantifiable estimates instead of the uneven scaling suggested by the Lewinian-based approach (i.e. firm, individual, and system).

#### (4) Statistical methods

Theory-laden empirical data is (Cook and Campbell 1979:23-25) the departure premise for empirical entrepreneurial theory building research to promote conceptual development and afford the facility to examine such theory.

Many empirical research possibilities exist due to the rich nature of the entrepreneurship field. Entrepreneurs are patently unique, purposeful, and idiosyncratic, resulting in normally distributed data being uncommon from an empirical measurement perspective, illustrating the volatility of entrepreneurship data (Robinson 1995).

This data volatility excludes meaningful aggregation and least squares estimates, the variance across instances tends to be idiosyncratic and turbulent, not graded or normative (Low and MacMillan 1988).

The employment of parametric statistical tests requires rigorous assumptions compared to non-parametric analysis techniques. Parametric analysis techniques (e.g. correlation, MANOVA, regression, and ANOVA) depend intensely on specific data characteristics (e.g. homogeneity of variance across variables, no distribution outliers, low distribution skewness, and kurtosis). Empirical entrepreneurship research regularly demands more flexible statistical methodologies such as the generalised linear model (McCullagh and Nelder 1999) or non-parametric statistics such as multiway frequency or logic analyses.

Non-parametric analysis techniques are more accommodating (Siegel and Castellan 1988:3) in handling turbulent data with characteristics hostile to the severe assumptions of parametric techniques, which rely on an ideal referenced functional form.

Non-parametric tests employ sample-specific multinomial distributions rather than assume multivariate normal distributions or population-derived

univariate distributions (Hardle 1994:4). Parametric statistical tests are pliable to equilibrium assumption economic theories such as income distributions (Hardle 1994:8). These important characteristics emphasise the distinction between the prediction function and causal inference based on forecasting (Cook and Campbell 1979:296-297) and their association with parametric and non-parametric statistical approaches.

### 1.11 Contemporary entrepreneurial research

Presently the field seems caught between the efforts to overcome the drawbacks of newness and the need to achieve maturity (Cornelius *et al.* 2006). This academic positioning struggle is characterised by a phase of development that exhibits a 'domain' approach to knowledge, an independent creation of a domain of research (Cornelius *et al.* 2006).

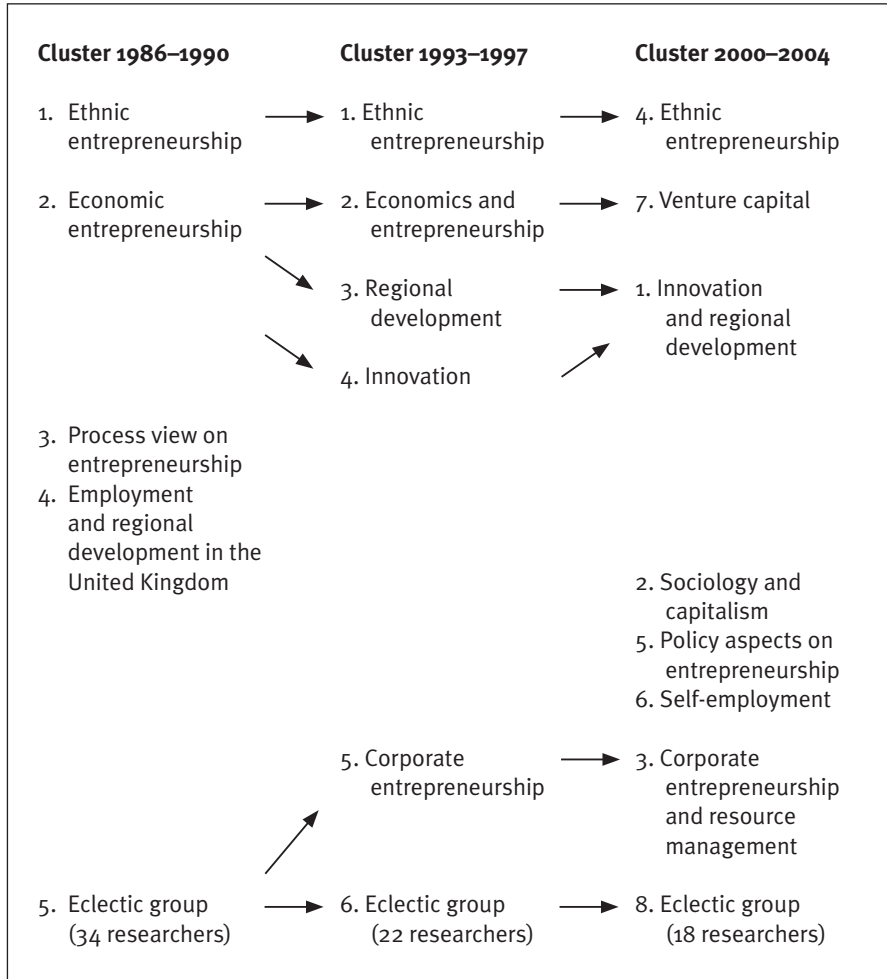
Fillion (1997) identified predominate entrepreneurial research themes exclusive to entrepreneurship. The research by Cornelius *et al.* (2006) clustered these various themes and dissected each cluster over a time line from the 1980s until the present day.

The emerging field of entrepreneurship is heading for maturity, and in the process builds up an understanding of the entrepreneur's role in society and the entrepreneur. Modern epistemology still expects to be built on model-centred foundations. However, without watering down thick, postmodernist descriptions of complex causality, the agent models are proposed as alternatives to mathematical models in entrepreneurial research (McKelvey 2004). Entrepreneurship research has grown to be increasingly self-reflective, resulting in various disciplinary specialists examining the position of entrepreneurship research.

The totality of outsiders and their influence has decreased steadily over time, as entrepreneurship researchers diminished the citing of 'outside' research work, and increased the citing of other entrepreneurship researchers. The research linkages over time show the greater reliance on insiders, building on the research that has gone before.

The research community recognises the increasingly complex research areas, and the numerous contributing authors consist of the 'core' of entrepreneurship researchers. The augmenting complexity of research in entrepreneurship in isolation testifies to a greater maturity in the discipline. Theoretical issues, based on empirical evidence, while not previously dominant, permeate as entrepreneurship attracts various business sub-disciplines.



**TABLE 1.3: Development of clusters over time***Source: Cornelius et al. (2006)*

**TABLE 1.4: Core authors and citation levels in all periods***Source: Cornelius, Landstrom, and Persson (2006)*

<b>Cited author</b>	<b>Total</b>	<b>1986–1900</b>	<b>1993–1997</b>	<b>2000–2004</b>
Shane S.	148	0	14	125
Aldrich HE.	129	10	48	57
Audretsch DB.	100	0	19	67
Light I.	96	13	15	33
Zahra SA.	93	1	23	62
Portes A.	88	10	28	30
Bates T.	84	4	35	17
Cooper AC.	70	12	33	7
Waldinger	69	12	26	11
Blanchflower DG.	67	0	7	51
Gartner WB.	66	11	33	15
Gompers P.	78	0	5	58
Kanter RM.	60	18	17	3
Hilt MA.	60	0	6	51
Porter ME.	59	6	15	28
Acs ZJ.	58	0	23	30
Reynolds PD.	56	2	12	36
Hellmann T.	56	0	0	53
Venkataraman S.	51	0	19	24

Entrepreneurship research is established well enough to be able to absorb these 'outsiders' and to claim them as its own. There are some consistencies in research interests, but these have evolved as the research community has become more established.

The examination of research areas to assist in the development of entrepreneurship has moved from a general all-encompassing state to more focused academic sub-fields where researchers examine financial, legal, and regional economic policies. No longer is entrepreneurship criticised as fragmented, which indicates the centrality of the entrepreneur to the social order

and the importance of academic effort to understand and accordingly support the activities of these major economic entities (Cornelius *et al.* 2006).

Various scenarios for the future of entrepreneurship research are possible. However, the work of Cornelius *et al.* (2006) has shown that entrepreneurship researchers have increasingly specialised thematically, which could lead to the development of more autonomous research groupings or 'research circles'. These networked research circles would ultimately reach consensus regarding their particular problems of interest, definitions, and methodological approaches, whereby they would be able to develop and exchange tacit knowledge. The research circles would facilitate the development of a cognitive style, professional language, and the creation of concepts, providing them with a recognisable identity in relation to other fields of research, thereby establishing a clear role for the entrepreneurial research field.

It has been assumed that entrepreneurship research would follow the evolutionary pattern characterised by numerous other research fields, by showing the tendency toward specialisations among entrepreneurship researchers. This trend is confirmed by McKelvey's (2004) research, which suggests that due to the complexity of entrepreneurship research the evolution order creation platform would be better suited than the Darwinian selectionist theory, which is equilibrium bound and better suits the economic theories.

Historical research (McKelvey 2004) was based on econometric analysis combining time series data, resulting in a trivial amount of variables used to predict theorised outcomes, better known as 'thin' descriptions. Thick descriptions, such as one firm case study, which are not necessarily generalisable, describe rich interactions of many facets, but as with 'thin' descriptions, science is poorly served by both approaches (McKelvey 2004).

This has resulted in the combination of both 'thin' and 'thick' description research, called heterogeneous agent based computational modelling (McKelvey 2004). The research movement towards focusing on various core entrepreneurial research domains as found in McKelvey's (2004) research clearly supports Cornelius *et al.*'s (2006) entrepreneurship's maturity test.

## 1.12 Conclusion

The historical development of entrepreneurship has demonstrated that theory building has originated from various academic sources. These heterogeneous sources have provided answers and further questions on entrepreneurial activities, characteristics, social and economic effects, and the enabling environment to facilitate entrepreneurial activity.

Entrepreneurship has always been part of humanity. However, the economists were the first to identify the phenomenon as a useful component in understanding economic development. The economic thought base reign lasted from the 1700s until the mid-twentieth century, when the research baton was passed on to the behaviourists.

The behaviourists attempted to understand the entrepreneur as a person until the 1980s, when the entrepreneurship field exploded and infiltrated into every other soft science discipline. Filion (1997) pointed out that some researchers such as Mulholland (1994) and Rosa and Bowes (1990) saw entrepreneurship research as dominated by the positivist-functionalists, and that a fresh research perspective should be investigated in order to comprehend what entrepreneurs do and are.

These new research avenues included:

- Cognitive mapping (Cossette 1994), which attempts to examine the entrepreneur's strategic logic
- Entrepreneurial vision (Filion 1991)
- The concept of self-space perceived and acquired by the entrepreneur (Filion 1993).

No academic field can allow itself to neglect theory, thus Filion (1997) suggests the establishment of a new science – *entreprenology* – to create a theoretical body assembled by convergent elements of theoretical studies of entrepreneurs by *entreprenologists* in the various academic disciplines.

The entrepreneurial research process creates an abundance of refutation and deduction inspiring continuous learning (Drucker 1985:263). This thirst for the acquisition of knowledge encourages impending research to delineate the role of acquiring new knowledge in a critical and rational spirit (Harrison and Leitch 2005), thereby providing a knowledge base that parlays into entrepreneurial discovery.

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## CHAPTER 2

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# ENTREPRENEURSHIP AS A DISCIPLINE AND FIELD OF STUDY

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*Boris Urban*

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### 2.1 Introduction

Entrepreneurship as an emerging enquiry is interrogated and the rationale for engaging in entrepreneurial studies is discussed through several consolidated findings. Obstacles constraining the field are highlighted, with specific emphasis on how definitional caveats and theoretical incompleteness may lead to reluctance to accept entrepreneurship as an established discipline. The study of entrepreneurship is introduced as a means of establishing ontology for the field. The point is made that no discipline can exist without theory, and the necessity towards establishing a new science – entrepreneurship, would position entrepreneurship as a distinctive domain of study. Entrepreneurship as embodied in different paradigms is investigated, and due to the eclectic nature of the subject matter, meta-triangulation is recommended for studying this multifaceted phenomenon. Next, five criteria are stipulated against which to examine if a field may be considered an established discipline; these are scrutinised against current developments in the field. Moving to more descriptive content, the extent of participation in entrepreneurship studies is explored, and several different institutional formats, countries, and various forms of entrepreneurship programmes are scrutinised. The state-of affairs in entrepreneurship offerings at South African Higher Institutions are summarised. Based on empirical evidence, entrepreneurship offerings come in various shapes and forms, and results from several multinational surveys are interpreted in terms of syllabi and pedagogies utilised. Moreover, in order to illuminate the distinctiveness of this emerging discipline, sharp distinctions are raised between entrepreneurship and generic management and small business management. Finally, an African perspective is

provided where it is intimated that current entrepreneurship studies in Africa are predominantly oriented towards preparing individuals for employment rather than for entrepreneurship.

## 2.2 Entrepreneurship as an emerging enquiry

Entrepreneurship as a field of academic enquiry was virtually ignored until the early 1970s, but has grown substantially since then to feature substantive curricula filled with rigorous courses that have been refined over the years, incorporating the best teaching practices and even offering PhD programmes at institutions such as Stanford (Morris 2004). Katz (2003) provides a solid foundation for the development of entrepreneurship in the US by exploring the roots of entrepreneurship education, the first course offerings, and the chronological evolution of entrepreneurship education. Through a complete educational infrastructure, consisting of more than 100 centres, and more than 40 referred academic journals and several professional associations, the growth of entrepreneurship courses and scholarly research has increased spectacularly.

This field has grown since 1963 to exceed US\$440 million, with an average of US\$1 million for each of the 277 chair and professorship endowments. Correspondingly, in a survey of the broader European situation, Klandt (2004) finds that the academic infrastructure for entrepreneurship research and education is growing substantially. Entrepreneurial education is growing fast not only in the US and Europe but also in South Africa, Australia, New Zealand, Japan, Canada, China, and Brazil, with the number of schools in the hundreds, and dozens of programmes offered by top business schools at graduate and undergraduate levels. Katz (2003:279) puts it succinctly: “There are too many academics, too much established infrastructure, and too much demand from students, firms and governments to let entrepreneurship fall into disuse or disarray.” This expansion of educational offerings has been fuelled in part by dissatisfaction with the traditional Fortune 500 focus of business education – dissatisfaction voiced by students and accreditation bodies. The dilemma is not that demand is high but that the pedagogy selected meets the new and innovative and creative mindset of students.

Internationally a number of fundamental questions are being tackled when considering entrepreneurship (NCGE 2006): What is the institutional rationale for engaging in enterprise and entrepreneurship education? Which models work in different contexts? What learning outcomes are beneficial, and to whom? How should these outcomes be learnt? What should we deliver and in what way? How do we scale up, sustain, and build from our experiences? As educators, how do we develop our practice?

An institution that addresses these issues is the National Council for Graduate Entrepreneurship (NCGE) in the UK. The NCGE captures and transfers across the entrepreneurship educator community the experiences and good practices

of wide ranging institutions and organisations engaged in delivering meaningful entrepreneurial outcomes in different contexts – specifically in the UK, USA, China, India, Ireland, South East Asia, and South Africa.

### 2.3 Criteria and rationale for entrepreneurship studies

Since the criteria for determining what constitutes a high quality entrepreneurship programme is fluid and indeterminate and to be viewed with skepticism, Vesper and Gartner (1997:404) borrow insights from successful evaluation efforts in higher education – *The Education Pilot Criteria For The Malcolm Baldrige National Quality Award 1995* (MBNQA), assessed across 28 requirements and embodied in seven categories. These are:

- Leadership, information, and analysis
- Strategic and operational planning
- Human resource development and management
- Educational and business process management
- School performance results
- Student focus
- Student and stakeholder satisfaction.

Ranking university entrepreneurship programmes, seven top criteria emerge (Vesper & Gartner 1997). These are:

- Courses offered
- Faculty publications
- Impact on community
- Alumni exploits
- Innovations
- Alumni start ups
- Outreach to scholars.

Such criteria are often invoked when providing a rationale for engaging in entrepreneurial studies; reasons offered are varied and often justified on the basis of fulfilling the stated criteria, these include:

- **Universities as facilitators of an entrepreneurial culture**

A strong focus on entrepreneurship will undoubtedly ‘spill over’ to non-business students and help foster an entrepreneurial culture. This is relevant where students with a core set of skills in different disciplines such as engineering, art and design, and tourism, are now able to appreciate entrepreneurial opportunities within their domain of expertise.

- **Universities as mediators of skills**

Entrepreneurship students pursuing an entrepreneurial career are equipped with a set of skills that will help them identify viable business ideas and provide them with a practical approach to entrepreneurship.

- **Entrepreneurial courses**  
Courses in entrepreneurship may complement general education for a broad range of students or serve as a specialist course for a group of entrepreneurship students.
- **Universities as ‘locomotives’ of regional business development**  
A strong focus on entrepreneurship will likely boost university relations with other stakeholders in the entrepreneurial field and facilitate the creation of regional policies and favourable entrepreneurship infrastructures.

Similar rationale is offered by the Global Entrepreneurship Monitor (GEM) studies, which provide critical data on the nature and levels of entrepreneurship in different countries and are able to track progress over time as a result of the longitudinal nature of these studies. Some conclusions drawn from these reports include:

- While it is difficult to measure the direct impact of entrepreneurship education on entrepreneurship, a number of surveys point to a **positive effect on graduate careers paths**.
- Start-up rates are three times higher among graduates with an **entrepreneurial background**. When adjusting for demographic conditions, an entrepreneurial background will increase the probability of being actively involved in a start-up by 25%.
- High-technology company start-up rates are 13% higher for **graduates with an entrepreneurial background**.
- Apart from the immediate impact on entrepreneurial activity, surveys suggest that entrepreneurship education leaves **students better prepared to cope with dynamic change**. Thus entrepreneurial skills create value – not only for entrepreneurs, but for established companies and society as a whole.
- The **income level** in large corporations among graduates with an entrepreneurial background is 27% higher compared to other business school graduates.
- **Growth** in small firms that employ entrepreneurial graduates is five times higher compared to companies that employ non-entrepreneurial business graduates.
- Given that many South Africans have expressed a **desire to start their own businesses**, the lack of skills and slow growth in newly-established firms, and the fact that entrepreneurship education appears to be a vital framework condition, underline the need for in-depth offerings in entrepreneurship education (Driver *et al.* 2001; Reynolds *et al.* 2003).

Perhaps the greatest asset of this field currently is the popularity of entrepreneurship in the classroom; this is the driving force that has pushed the discipline forward. Therefore the first order of business should be to protect and enhance this asset (Low 2001:11).

## 2.4 Obstacles constraining the development of entrepreneurship

Despite the benefits of entrepreneurship being widely extolled, there are several institutional and academic obstacles to entrepreneurship in general. These objections are primarily that the domain of entrepreneurship is often contested. Another obstacle lies in the definition of entrepreneurship programmes.

The dominant issue obstructing the development of entrepreneurship pedagogy, since its inception, has been the widely held belief that entrepreneurs are 'born not made'. The suspicion that entrepreneurship is an inherent trait not easily nurtured has been largely dispelled with the rapid growth of entrepreneurship courses offering some credibility for the assumption that skills relevant to successful entrepreneurship can be taught. Solomon, Duffy, and Tarabishy (2002) found empirical evidence to suggest that the teaching of entrepreneurial skills aided new venture creation. The same authors also report that while personality traits are not easily influenced, the body of knowledge required by entrepreneurs can be taught. Similarly, reporting on a ten-year review of empirical studies, Gorman, Hanlon, and King (1997) indicate that entrepreneurship can be fostered with entrepreneurship education. Plaschka and Welsch (1990) declare that the entire question of whether entrepreneurship can be taught is obsolete when considering the relationship between entrepreneurial activity and economic development, combined with the prevalent notion that entrepreneurial ventures are pivotal to innovation, productivity, and effective competition.

The view that entrepreneurship as a skill can be developed and is not merely restricted to an anointed few is welcomed; although the notion that some people have a greater predisposition towards entrepreneurship and would need less encouragement is justifiable.

Many academics remain sceptical both about the validity of entrepreneurship as an academic field and the quality and rigour of entrepreneurial research. Numerous and often conflicting theories that lack standardisation of definition are cited as blocks to real advancement of the field.

The reluctance to accept entrepreneurship as an established discipline is the consequence of many reasons, such as:

- No agreement exists on common terms
- Parameters of study are not clear
- Definition of entrepreneurship is not agreed upon
- Few conceptual frameworks exist
- There is no integrated unified theory (Ronstadt 1990:58).

Additionally, entrepreneurship has no great theories; at best concepts are taken from other fields and then incorporated into process models. Entrepreneur models are fragile and parameters are always changing and predictions are crude (Bygrave 1989:13).

Some potential problems relating to the academic enquiry of entrepreneurship are:

- Unit of analysis: It has been suggested that if one is unable to agree on a definition of entrepreneurship it is unlikely to have variables with precise definitions, instruments with clear specifications, and populations with exact demarcations (Bygrave 1989:14).
- Unwillingness to define boundaries of the field and unwillingness to discuss unstated assumptions of field will continue to promote a weak paradigm for entrepreneurship (Gartner 2001:8).
- Researchers need to focus on describing specific concrete, identifiable activities and then develop frameworks to show how these activities are related to higher order constructs about entrepreneurship (Gartner, Bird & Starr 1992:20).

According to Filion (1997) researchers tend to perceive entrepreneurs and define entrepreneurs using the premises of their own disciplines, e.g. the economists emphasise the classic models of economic behaviour and innovation, the behaviourists the characteristics and profiles of entrepreneurs, the management specialists the resourcefulness and organising capabilities of entrepreneurs. However, these differences need not create confusion since similarities do emerge within each discipline. In fact, the quest to standardise the definition of entrepreneurship has been regarded as a futile endeavour (Shane & Venkataraman 2001).

Arguing from a constructivist stance, Bruyat and Julien (2000:167-168) suggest that no definition is good in itself, but is a construct at the service of the research questions that are of interest to a scientific community at a given time. They propose that the scientific object studied in the field of entrepreneurship is the dialogue between the individual and new venture creation, within an ongoing process and within an environment that has specific characteristics.

Some specific constraints to wider scale implementation of entrepreneurship programmes at South African Higher Education Institutions have been previously identified as: the arduous process of re-curriculation required to incorporate entrepreneurship into the syllabus, funding mechanisms, departmental viability (Davies 2001), fixed mind sets, vested interests in more established disciplines, and a dearth of entrepreneurship scholars and experts.

Describing the current academic landscape, Jansen (2004:13-16) in a broader context of understanding how mergers shape the institutional curriculum, reports that “strong ideological divides have limited the nature and degree of curriculum integration between the institutions”, with one curriculum simply “dissipating under the politics of neglect and indifference”. This is mentioned insofar that friction issues between management and entrepreneurship curriculum design are common and often remain unresolved; these issues are further elaborated upon later in this chapter.

## △ REFLECTION SECTION

Entrepreneurship is now politically popular and essentially a charismatically charged term, which is invoked as a panacea to unemployment and economic growth issues in South Africa and elsewhere. However, there is a downside related to the ambivalent conceptual and efficacy notions of entrepreneurship, often proliferating unreasonable and unpredictable expectations (Curran 2000; Laukkanen 2000). Moreover, the expanding mass of entrepreneurship literature and vast array of activities in the field tend to compound intellectual confusion and ignorance, which in turn undermines the academic legitimacy necessary to teach and research entrepreneurship. Do you agree or disagree with this view? Substantiate your answer.

## 2.5 The study of entrepreneurship

The study of entrepreneurship (Filion 1997) emphasises establishing ontology for entrepreneurship, in that no field can exist without theory, and to create theoretical corpus it becomes necessary to separate applied research from theoretical research by establishing a new science – entrepreneurship. Similarly, Shane and Venkataraman (2001) advocate reaching a consensus on the distinctive domain of entrepreneurship research – the ontology that would set the entrepreneurship field distinct from other fields of management.

It has been suggested that scholars are obliged to teach theory because it is closer to the truth than observation alone (Fiet 2000 b:104). However a shortage of faculty with entrepreneurship credentials, exacerbated by a shortage of PhD programmes specialising in entrepreneurship, accentuate this point in that a lack of theoretical consensus in the field may result in a reputation of low rigour and superficial courses for entrepreneurship. Yet the common approach with entrepreneurship is often defined as something concerned with learning and facilitating for entrepreneurship (what to do and how to make it happen) and less with studying about it (in a detached manner as a social phenomenon). Populist writings on entrepreneurship with their usual clichés of management speak often degenerate this subject matter. Perhaps what is required is to erode all basis of cosiness, and avoid cogitating entrepreneurship as yet another ‘chicken soup for the soul’ remedy.

However despite these limitations, it is argued that entrepreneurship as a field of study seems to sustain a number of issues not so trivial and whose study might contribute to issues requiring thought beyond the practical. In view of entrepreneurship being highly practical as a subject matter, it must no doubt have a functional and pragmatic curriculum, but it is also necessary for entrepreneurial students to acquire critical socialisation to develop multiple academic literacies, including a personal academic identity (Henning & van

Rensburg 1999). Moreover, it is necessary that both approaches are necessary but not sufficient for a wider concept of high-level entrepreneurial education. Entrepreneurship is an emerging field that must create its own ontological and epistemological base.

Entrepreneurship, like an aphorism, whose entire set of implications has been worked out, no longer stimulates those who hear it or read it. "Thought systems become popular by speaking to multiple audiences" (Davis 1999:266). Theories that flourish have a reproductive advantage not only intellectually but also socially; they must be interesting enough for continued cognitive appeal and practical enough for sustained status advancement. What tends to make a theory interesting are its implications; the interesting determines the truth not the other way around.

Moreover an idea becomes interesting only in relation to the baseline of another opposite idea; entrepreneurship becomes interesting only against the background of conventional management (Davies 1999:260).

Entrepreneurship is one of those disciplines that attracts specialists from such a wide range of disciplines that the assimilation and integration of entrepreneurship into these disciplines is a unique phenomenon.

Five content levels for the development of entrepreneurial knowledge have been identified that can be used to characterise the content dimension of entrepreneurship education (Johannisson 1991):

- The know-why (attitudes, values, motivation)
- The know-how (abilities)
- The know-who (short and long-term social skills)
- The know-when (intuition)
- The know-what (knowledge).

More broadly, knowledge itself has different facets: explicit or tacit; declarative or procedural; or as Habermas contends (cited in Schwandt 2005), knowledge manifests in different forms based on communicative action; instrumental, communicative, and emancipatory. Although these mentioned orientations are not entirely independent of one another they do represent different ontological and epistemological viewpoints. The point is that with the creation for meaning for the entrepreneur, the necessity for action to be linked with cognition is paramount. For entrepreneurship theory to fully develop a shift away from a primary functionalist reality to one that incorporates a subjective interpretive reality is crucial (Schwandt 2005).

The label entrepreneurship education, which has been used extensively by both US authors and non-US ones, is content analysed by B  chard and Gr  goire (2005) to determine the major types of education preoccupations characterising entrepreneurship education. Using a theory-driven framework, B  chard and Gr  goire classify and analyse the content of 113 articles to identify the main educational theories anchoring scholarly writings in entrepreneurship at the university level. The results of their study indicate that entrepreneurship education



at the university level is principally underpinned by academic theories (63%) and to a lesser extent, by social and technological theories (21%). This is a positive finding since indications are that cumulative theory is evolving in the field and that substance is emerging in the form of theory. Some of the dominant themes – there are 25 – in the field of entrepreneurship have been identified and range from a family business to studying women, minorities, and ethnic groups in entrepreneurship (Filion 1997).

For instance, opportunity recognition is a topic that falls squarely within the unique domain of entrepreneurship education. The scholarly pursuit of entrepreneurship would be to understand how opportunities are discovered and by whom and with what consequences; this coincides with the traits, processes, and activities perspectives of understanding entrepreneurship (Kaufmann & Dant 1998).

In summary, based on the natural strengths of entrepreneurship – via its academic and practical foundations, its multidisciplinary focus, and bridging of functional areas – entrepreneurship definitely seems noteworthy as a field of study.

## 2.6 Entrepreneurship embodied in different paradigms

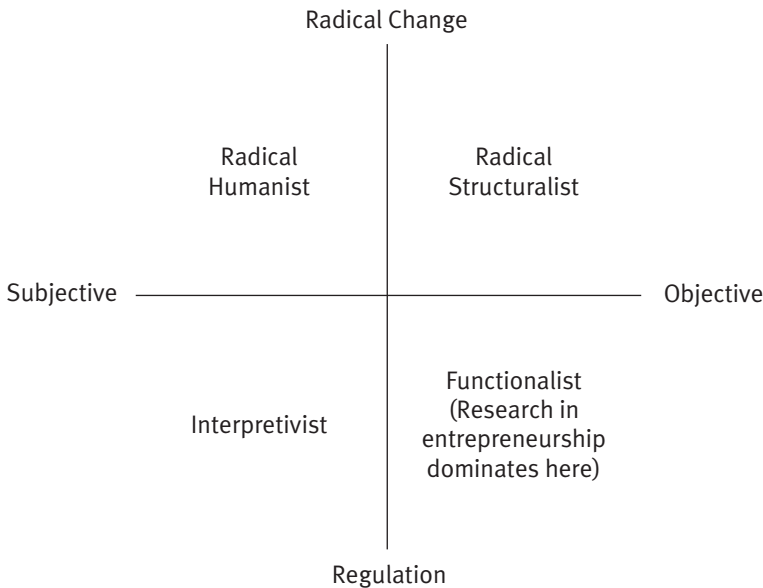
Some insights gained from studying entrepreneurship embodied in different paradigms are learning to distrust neat categorisations, which ultimately fail to explain and predict; especially due to the eclectic nature of the subject matter. Apparent opposites seem to belong more obviously together in entrepreneurial discourse than with other disciplines. It has been suggested that meta-triangulation is most appropriate for studying multifaceted phenomena characterised by expansive and contested material such as entrepreneurship (Lewis 1999).

Based on the notion that philosophical assumptions and assumptions about the nature of society underlie different approaches to social science, Burrell and Morgan's (1979) paradigmatic framework introduces the underlying meta-theoretical foundations of organisational theory. Burrell and Morgan propose the use of two continuums, objectivist-subjectivist and radical regulations, to analyse these key assumptions. Based on their derivation of four paradigms, the functionalist, interpretivist, radical-humanist, and radical-structuralist paradigms are portrayed in figure 2.1.

- Functionalists are portrayed as taking an objective view of reality and are concerned with explaining how organisations and society maintain order.
- Interpretivists are portrayed as taking a subjective view of reality, being concerned with explaining individuals' perceptions of their organisations and society. They are also concerned with explaining radical change in organisations and society.

- Radical humanists are portrayed as taking a subjective view of reality and are concerned with explaining radical change in organisations and society.
- Radical structuralists are portrayed as taking an objective view of reality and are concerned with explaining radical change in organisations and society (Burrell & Morgan 1979).

Grant and Perren's (2002) paradigmatic analysis of 36 articles published in leading entrepreneurship and small business journals in 2002 found that within the field of entrepreneurship, the vast proportion of theory and research is located within the bounds of the functionalist paradigm, characterised by an objectivist perspective and rooted in regulation. Contextualised within the range of alternative perspectives available to researchers, it becomes clear that the dominant paradigm of entrepreneurship research is based upon a relatively narrow range of meta-theoretical assumptions. The concentration of effort within this narrow range has resulted in functionalism becoming dominant within the subject domain (Grant & Perren 2002).



**FIGURE 2.1:** Paradigmatic framework based on Burrell and Morgan's work  
*Source: Adapted from Burrell and Morgan (1979)*

*Note:* Most entrepreneurship articles have been classified as broadly being within the functionalist paradigm.

## 2.7 Entrepreneurship as an established discipline

In order to examine the elements by which a field is judged whether it is an established discipline, the following criteria are suggested (Ronstadt 1990; Plaschka & Welsch 1990):

### **(1) The field must be distinguishable**

Entrepreneurship often falls into the 'general management' category of studies and lacks a clear identity (this issue is discussed separately in sections which follow). As indicated in the preceding chapters, the field essentially borrows extensively from other disciplines, and even though early pioneers such as Say, Knight, and Schumpeter shed some original ideas on the concept of entrepreneurship, it was not until McClelland introduced the need for achievement and its impact on entrepreneurship that the formative stages of identity began. An indicator of maturity in the field – in addition to the emerging trends discussed in previous sections – is the proliferation of differentiated concepts in addition to the established one of entrepreneurship, these include concepts such as intrapreneurship, technopreneurship, and international entrepreneurship.

### **(2) Systematic theory and an established body of literature should exist**

In addition to substantial increases in conferences, journals, and research, there has been a positive movement towards acceptance of a common definition of entrepreneurship – namely “scholarly examination of how, by whom, and with what effects opportunities to create future goods and services are discovered, evaluated and exploited” (Shane & Venkataraman 2000:218). Another indicator of evolution of the field is the movement towards more sophisticated research designs, research methods, and statistical techniques. A shift towards larger data samples and use of large data bases, e.g. GEM longitudinal studies, and a move away from exploratory studies toward causal research suggest that the field is developing systematically and building on established foundations.

### **(3) Authority and professional associations are established**

Formal disciplines are characterised by professional associations operating through networks of formal and informal groups. In entrepreneurship, associations are characterised by diverse groups representing a wide range of functions, including research, education, and practice. A good example is the International Council of Small Business (ICSB), which essentially provides a forum for educators, researchers, practitioners, and policy makers. Conferences also help to establish the legitimacy of the discipline, where researchers mingle with practitioners, junior members meet senior researchers and join together to share information and developments in the field. These interactions represent the professional culture fostered and encouraged by members in the discipline.

#### **(4) Ethical codes and culture are prevalent**

The values and norms of the entrepreneur as a professional are based on concepts of creativity, innovation, and opportunity development. Often entrepreneurship is seen as the key to innovation, improved productivity, and more effective competition in the marketplace. The media also plays a key role in projecting the image of a successful and ethical entrepreneur. Entrepreneurs like David Packard, Ray Kroc, Walt Disney, and Steve Jobs embodied a new set of standards that incorporated the creation of new value, freedom to succeed or fail, and a legitimate possibility of creating wealth.

#### **(5) Career prospects exist**

Recent changes in corporations – mergers, restructuring, and downsizing – have changed the corporate landscape for most employees. The notions of job security and stability have been overturned and the expectations of life-career prospects which traditionally provided a security blanket are no longer available for job seekers. Facing uncertainty has become an underlying phenomenon in all career choices. Individuals are now entering and exiting careers more rapidly, and new venture creations represent a viable opportunity for many individuals (Plaschka & Welsch 1990). As initially discussed, one of the objectives of entrepreneurship education is the establishment of prospective employers and not employees.

## **2.8 Participation in entrepreneurship studies**

Entrepreneurship programmes exist, most generally, within established university business schools, and this presents a paradox that helps to explain a lack of uniformity in curriculum and pedagogies. Traditional business programmes have come under increased criticism for failing to be relevant to the needs of today's changing business environment. One common criticism is that business education has become too functionally oriented – that it doesn't stress the cross-functional complexity of business problems. Other criticism focuses on the "lack of creativity and individual thinking required at both undergraduate and graduate levels" (Solomon, Fernald, & Weaver 1993). Most business school courses are highly structured and do not often pose problems that require novel solutions.

Thierry and Susan (2006) develop a conceptual framework for testing the effectiveness of entrepreneurship education and training programmes towards entrepreneurial intention. According to several interviewees positive attitudes towards entrepreneurship have a great influence on entrepreneurial intention. 'Entrepreneurship' was associated with freedom, independence, self-realisation, and being able to implement one's own ideas. Being an entrepreneur is considered something 'worth striving for'. Additionally, interviewees believe that an entrepreneurial family background can lead to a higher consciousness or openness towards choosing an entrepreneurial career. Also, it can support and encourage

one's own entrepreneurial aspirations and the realisation of entrepreneurial endeavours (e.g. through existing networks or financial resources). Some interviewees, entrepreneurs, and educators acknowledged the encouraging, motivating, and supportive virtue of entrepreneurship education and training. At the same time they doubt that education and training can fundamentally change someone's attitude towards the topic: a basic interest, certain characteristics or socialisation patterns are considered as being relevant in order to possess an 'entrepreneurial seed' which can be increased to entrepreneurial intention.

Broadly speaking, business schools across the United States have the highest participation rates in terms of entrepreneurship studies. At Babson College, a 'pure' business school, all MBA students and 35% of undergraduate students attend entrepreneurial courses. Total participation rate is approximately 70%. At the Marshall School of Business (University of Southern California) the participation rate is 100%, while business schools at UCLA and Stanford, where entrepreneurship education is only offered at graduate and post-graduate level, have a participation rate of 90% (Kjeldsen 2003).

Approximately 40% of Harvard MBA graduates pursue an entrepreneurial career either as entrepreneurs, venture capitalists, or as entrepreneurial advisers. Harvard's excellent record lies in a strong focus on entrepreneurship, a dedicated and experienced teaching staff as well as a careful screening process that emphasises leadership potential, intellectual capacity, and personal drive. Apart from the careful selection of candidates, Harvard upholds a strong focus on fostering entrepreneurial skills at an academic and psychological level. Several courses have a practical approach aimed at providing students with exposure to the real-life challenges of being an entrepreneur. Furthermore, entrepreneurial courses are often spread across multiple faculties, and students may attend classes at other faculties (Kjeldsen 2003).

Across the Atlantic and according to the European Union policy, entrepreneurship should be included into all educational levels and throughout the common curricula (Commission of the European Communities 2006; Seikkula-Leino 2008). The strategy of the European Union highlights the importance of the development of entrepreneurial culture by fostering the right mindset, entrepreneurship skills, and awareness of career opportunities. Developing entrepreneurship through mainstreaming is still quite rare, where mainstreaming presents the idea that entrepreneurship is embedded in all subjects and pedagogy, and is not applied as a specific subject. Countries such as Finland have extensively mainstreamed entrepreneurship at all education levels, including primary and secondary education.

Universities are actively pushing entrepreneurship education beyond the boundaries of business schools. This is significant, since it has been suggested that students from non-business faculties might be the breeding grounds for new businesses, whereas traditional business school students are not. Specifically, individuals with technical skills have been identified as potential entrepreneurs – referred to as technological entrepreneurs or 'technopreneurs'

(Lee & Wong 2004:9). Evaluating regional transformation through technological entrepreneurship Venkataraman (2003) analyses how in a modern economy universities and research and development laboratories are the incubators of novel technical ideas; it is not an accident that areas around Boston and Silicon Valley have produced a significant amount of wealth. Infusing an enterprising spirit into student endeavours and the promotion of inventive skills have been implemented as an impetus to promote 'technopreneurship'. This phenomenon is discussed as an independent subject in subsequent chapters.

Different approaches for dividing entrepreneurship programmes into two categories have been conceptualised (Johannisson 1991; Kjeldsen 2003):

In the *focused approach* faculty, students, and staff are located exclusively in the academic area of business, while the *unified approach* targets non-business students outside the realms of business schools. At Harvard, entrepreneurial programmes are targeted exclusively at Harvard Business School students. Others may apply, but only a limited number of students outside the Harvard Business Schools are admitted. Over the past ten years the trend toward university-wide entrepreneurship education in the United States has been strong and gaining momentum. Entrepreneurship is no longer perceived as a discipline available to business school and technical university students only. Examining 38 ranked entrepreneurship programmes, a study found that about 75% offered university-wide programmes.

There are two versions of the unified approach:

- (1) In the *magnet-model* students are drawn from across a broad range of majors. Entrepreneurial activities are offered by a single academic entity, but attended by students from all over the university. All resources and skills are united into a single 'platform' that helps facilitate the coordination and planning of entrepreneurial activities. This approach has been applied at MIT, where entrepreneurship programmes are administered under the Sloan Business School. Emphasis is put on recruiting students from technical faculties to exploit the synergism between an economic/business approach and a technical approach. The benefits from the interdisciplinary approach have been confirmed by MIT surveys, which show that 80% of companies started by engineers have been forced out of business, while 80% of companies originating in MIT have survived. Moreover, students are encouraged to build networks involving the entire student body, alumni, entrepreneurs, and employees at MIT. Networks are a prerequisite for meeting MIT goals to unite academic and practical disciplines in entrepreneurship. This is facilitated through day-to-day education and by offering internships to entrepreneurial students.
- (2) In the *radiant-model* individual institutes and faculties are responsible for facilitating the integration and visibility of entrepreneurship activities, thereby enabling entrepreneurial activities to be adjusted to the specific structure of individual faculties. This approach resonates somewhat with

the approach taken at certain SA HEI, where entrepreneurship modules are adapted for specific faculties, i.e. entrepreneurial studies for art and design students vs. students in the field of health sciences.

The SA situation, based on the surveys conducted by the National Council for Graduate Entrepreneurship (NCGE) in the UK, indicates that in SA HEI, based on the surveys conducted by the National Council for Graduate Entrepreneurship (NCGE) in the UK, participation is relatively broad across the following activities.

TABLE 2.1: AfED ([www.afed.co.za](http://www.afed.co.za))

<b>Types of entrepreneurship activities</b>	
There is a wide range of entrepreneurship activities that can be placed in six broad categories:	
<b>U3</b>	Undergraduate (3 year) programme in Faculty of Commerce or Management Sciences
<b>G1</b>	Graduate (1 year) programme at Honours or Masters level. Typically aimed at more mature students. Usually in Faculty of Commerce or Management Sciences.
<b>MBA</b>	MBA electives
<b>E1</b>	Entrepreneurship module in 3rd or 4th year of undergraduate degree in Science or Engineering
<b>SE</b>	Student entrepreneurship activities
<b>OSC</b>	Outreach and short courses

TABLE 2.2: AfED (www.afed.co.za)

Types of activities offered						
	U3	G1	MBA	E1	SE	OSC
University of Pretoria	x	x		x	x	x
University of Cape Town			x	x		x
University of the Western Cape	x	x		x		x
Cape Peninsula University of Technology	x				x	x
University of the Witwatersrand				x	x	
University of Johannesburg					x	x
University of KwaZulu-Natal		x				x
Tshwane University of Technology		x		x		
Durban University of Technology				x	x	x
University of the Free State		x	x	x		
	3	5	2	7	5	7

*Note:* These were the main activities that were reported in the survey. Other universities may offer programmes and the listed universities may have programmes that were not reported.

Although certain anomalies exist in the above tables – such as the post-graduate offerings specialising in Entrepreneurship, and the extensive service offerings to different faculties at many HEI, which are not fully reflected – the tables incorporate the broad range of programmes offered across various institutions in SA.

In conclusion, while available data should be treated with some caution, a number of observations can be drawn: The United States has the highest participation rate in entrepreneurship programmes, especially among business school students. Given the strength of entrepreneurship education in the United States, this should come as no major surprise. Nonetheless it is notable that South African participation is behind that of US and European universities.



## 2.9 Offerings and pedagogy in entrepreneurship

The expansion of educational offerings has been fuelled in part by dissatisfaction with the traditional focus of business education, as voiced by Fortune 500 (US) companies, students, and accreditation bodies (Nixdorff & Solomon 2005; Solomon, Fernald & Weaver 1993). The dilemma is not that demand is not high but that the pedagogy utilised in most business schools does not meet the new innovative and creative mindset of students.

A wide variety of factors has been hypothesised (Hills 1988) to affect the outcomes of entrepreneurial education efforts. These include:

- Increased awareness and understanding of new venture processes
- Introducing entrepreneurship as an option of career
- Understanding functional business relationships
- Recognising or understanding traits and characteristics of entrepreneurs.

To effectively pursue such objectives, a common practice is to design the entrepreneurship course as a discovery process in which students are encouraged to identify a viable business opportunity, and to pursue this opportunity through coached business plan writing (Fiet 2000b).

Entrepreneurship courses come in various shapes and forms. Some deal exclusively with the early stages of company start-ups, how students apply creative thinking, business idea development, or how to identify business opportunities. Others address the start-up phase and focus on the actual planning and launch of a company. Entrepreneurship courses may provide students with a practical approach to drafting a business plan, or courses that introduce students to budgets, finances, etc. (Kjeldsen 2003).

Some leading entrepreneurial topical coverage areas include:

- Strategy/competitive analysis
- Managing growth
- Opportunity discovery/idea generation
- Risk and rationality
- Financing.

Opportunity recognition and exploitation are constructs that fall squarely within the unique domain of entrepreneurship research. The scholarly pursuit of entrepreneurship would be to understand how opportunities are discovered and by whom and with what consequences. This coincides with the traits, processes, and activities perspectives of understanding entrepreneurship (Kaufmann & Dant 1998). Each of these topics comes from established literature of other disciplines.

The body of knowledge applicable to these different disciplines is substantial, and therefore it is the unique task of entrepreneurship educators to integrate insights from various fields and disciplines.

Based on multinational survey results, Fiet (2000 a:3) finds that entrepreneurial course content varied so much that it was difficult to detect even if these programmes had a common purpose. Research has found that the 18 analysed syllabi encompassed 116 different topics, and that they only overlapped on about one-third of the topics, with no clear categories. In attempting to explain the many influences on the diversity in content of these courses, the following have been emphasised:

- Academic autobiography (teach from perspective of one's own training)
- Lack of theoretical rigour (in so far that theory is non-cumulative and superficial)
- Entrepreneurship textbooks (lack of rigour in textbooks).

In order to surface some of the issues inherent when comparing programmes across widely varying pedagogies and curricula, an attempt to redirect the evaluation of entrepreneurship programmes away from a dependence on public relations efforts (currently utilised by many business schools), towards more discernable and measurable criteria is strongly welcomed (Vesper & Gartner 1997).

Although the field of entrepreneurship currently lacks cumulative theory, a contingency approach for teaching entrepreneurship that is very similar to the scientific method used by scholars to develop hypotheses about the future is recommended; this includes aggregation of related theories, and dealing with assumptions utilised in theories (Fiet 2000 a).

It is also quite common for entrepreneurship classroom situations to focus heavily on theory – either management theory being adjusted to give advice for entrepreneurship and small business or entrepreneurship theory explaining the emergence of entrepreneurs and their personal traits (Nixdorff & Solomon 2005). Nonetheless, the essence of entrepreneurship must reflect reality, with the best methods suited to an entrepreneurial learning style being active-applied and active experimentation. These also include concrete experience, reflective observation, and abstract conceptualisation.

Since students are aware that certain entrepreneurs have succeeded without formal training in entrepreneurship (notwithstanding that teaching theory is boring), the task remains to convince students that the tools and information they are provided with will increase their prospects as entrepreneurs (Fiet 2000b). Practitioners' inputs are also required for entrepreneurship curricula design, in order to identify differences in the relative importance of entrepreneurship content issues (Plaschka & Welsch 1990).

Gibb (2006) recognises the key to entrepreneurial learning as a very careful linkage of pedagogy with enterprising outcome. He further identifies the major challenge of embedding enterprise in the curriculum, which is wholly inadequate as it does not allow:

- learning by a process of repeated doing
- repeated practice and small group work aimed at developing enterprising behaviours

- greater ownership of learning to be given to participants
- the building up of motivation to learn under pressure
- the opportunity to move outside the classroom to work with external organisations to create something rather than observe and gain insight into the 'community of practice'; and, most importantly
- experimentation with a wider range of pedagogies.

Gibb (2006) demonstrates how selected pedagogies can be linked with outcomes. For example, drama creates the capacity to be creative, builds teamwork, demands empathy, builds capacity and confidence in individuals to perform, and importantly, in an academic context, underlines the subjectivity and emotional underpinning of all knowledge. Debating builds capacity to persuade, construct argument, have empathy with other points of view, and make intuitive judgment in an instant response to messages. Drawings stimulate creativity and innovation in thinking and empower with the notion of self-expression and a wide range of feelings.

The focus of outcomes therefore becomes one of seeking to develop understanding of, and empathy with entrepreneurial ways of thinking, ways of doing, ways of organising, ways of feeling, ways of communicating, and ways of learning. Indeed if entrepreneurship is to become embedded in the curriculum, as opposed to an externally provided 'add-on', it must accommodate the ethos of the educational contract at various levels of the education system: child-centred in primary; subject-centred in secondary; vocational-centred in further education; and discipline-centred at university.

It seems possible to measure and assess a range of entrepreneurial outcomes that could ensure that students:

- really understand the life world of the entrepreneur and the entrepreneurial person
- understand and have empathy with his/her values
- know why people want to be self employed
- know how to network and the importance of making things happen through people
- see opportunities in problems
- have some role models they can aspire to
- have a frame of reference for setting up an organisation
- can think of and appraise ideas
- have some initial capacity to persuade, present, negotiate, think on their feet, and make intuitive judgments (Gibb 2006).

The state of entrepreneurship education development in the Finnish comprehensive school seems rather positive. Reflecting on the current state of Finnish entrepreneurship education in comprehensive schools one could assume that teachers understand the aims of entrepreneurship education, albeit the knowledge of its contents and working methods tend to be rather narrow. This

indicates that often teachers know what one should implement but do not know how. This poses challenges for teachers' basic and in-service training, suggesting additional focus on the pedagogy of entrepreneurship education should be provided.

Seikkula-Leino (2008) conducted research that took an evaluative approach to entrepreneurship education development through curriculum reform. Their research indicates that there are substantial opportunities for this kind of reform, and recommends the following in order to enhance the implementation and mainstream of entrepreneurship education:

- (1) Develop partnership curriculum reform initiatives
- (2) Improve teachers' training
- (3) Promote an enterprising culture.

Based on what is often considered a seminal study of entrepreneurship education, a survey conducted in the US by Solomon, Duffy and Tarabishy (2002) reveals that different offerings by a specific type of educational institution are evident. The results indicated that two-year colleges are predominantly teaching Small Business Management courses. The four-year colleges and universities are also predominantly teaching Small Business Management, and international colleges and universities are predominantly teaching Entrepreneurship. The researchers suggested that for future studies, terms such as 'entrepreneurship', 'new venture', and 'small business management' should be operationally defined to reduce any response bias.

Further, when investigating the most popular in-class pedagogical methods used in teaching Entrepreneurship and/or Small Business, the data revealed that all three populations, two-year colleges, four-year colleges and universities, and international colleges and universities, tend to employ the same basic in-class teaching methods, which include:

- Case studies
- Creation of business plans
- Lectures by business people and guest speakers.

Brodie, Douglas and Laing (2008) critically examine an innovative undergraduate student consultancy module taught at the Centre for Entrepreneurship at Napier University, Edinburgh. They discuss how this module is delivered to students, the benefits this delivery mode offers students, and how the module seeks to ensure value is added to the Small to Medium Enterprises (SMEs) for which students carry out their projects. Their findings highlight the positive impact on students' attitudes and awareness of enterprise issues in SMEs. The research also highlights the benefits to the SMEs involved – including the identification of new market opportunities, improved work methods and processes, new products/services development, improved customer satisfaction, increased operational efficiencies, improved quality, and decreased overall costs. This 'added value' is made possible due to the 'live' nature of the entrepreneurial project and the

autonomy offered to students to select their own host companies and identify appropriate projects to be undertaken during the 12-week consultancy period (while tutoring staff provide guidance and support at every stage of the process). Moreover, the authors provide hands-on advice and identify challenges to ensure that the module provides benefit for both the students and the SMEs involved. These include:

- **The ‘right’ teaching team with relevant experience**  
Entrepreneurial consultancy skills are not easy to teach to students who may not have started their working lives yet. It is therefore crucial that teaching staff on the module have a wide range of skills and knowledge to meet this challenge. It is vital that teaching staff on consultancy modules have the experience to coach, guide, and mentor students in and with their projects and selected companies.
- **Ensuring students are in the ‘right mindset’ for the projects**  
Educators are required to ensure that students know that they have only a short time within the company and need to focus on a problem that can have a deliverable solution within the set time frame. Time frames become difficult because of ‘scope’, ‘hope’, ‘effort’, and ‘feature creep’. Students may also come across difficulties, such as employees/management closing ranks when they are researching their projects. It is necessary to support the students’ strategies for dealing with such issues.
- **Resource issues**  
Acting as support to entrepreneurial consultancy students is a labour-intensive role. Technology has aided this requirement through access and use of email, texts, and mobile phones. Students need constant mentoring and guidance. With no formal weekly class, it is imperative that students know they can communicate effectively with their tutor. It is essential for tutors to be available, as and when needed by students, to respond to emails at short notice, and to ensure that students do not waste time waiting for responses to their queries.
- **Helping students to identify suitable host companies**  
Although the majority of students find companies through their own contacts it is important that the tutor is prepared and able to assist those students who struggle to find a suitable company and project. There is an added dimension in helping students to find host companies, in that tutors and the university face the challenge of providing assistance with company contacts but still want to be comfortable that the student(s) given the contacts will perform the project undertaken to a certain standard. Students need to be informed that their performance will affect the reputation of both the university and the tutor and therefore they need to act professionally when making contact with the host companies.
- **Managing student teams**  
Tutors often have to support the students in their self-management. Team work presents well documented and known challenges, such as ‘freeloaders’,

communication breakdowns, coordination and time management issues for both students and tutors. However, it is important that students have the option to work in a group since consultancy projects in larger firms usually comprise a multidisciplinary team approach. From the students' perspective, they may have already enjoyed a positive experience when working in groups, but students may have experienced a negative experience too. Some students choose to operate on their own; this allows them to work according to their own pace, and they are then completely responsible for the project's outcome.

In summary, it is recommended that there be an increased focus on entrepreneurial education with more reality and experientially-based pedagogies. The challenge to educators will be to craft courses, programmes, and major fields of study, meeting the rigours of academia while keeping a reality-based focus and entrepreneurial climate in the learning experience environment (Plaschka & Welsch 1990; Urban 2006).

## 2.10 Entrepreneurship vs. generic management

The indiscriminate approach that currently prevails in entrepreneurial studies fails to acknowledge the key differences between entrepreneurship and traditional management courses. Specifically traditional management courses are functionalist in design, and fail to acknowledge the stage of firm development. Entrepreneurship is primarily concerned with the discovery stage of firm development where a different set of skills is required to that of controlling and coordinating resources, which is often commensurate with later stages of firm development.

Management skills are obviously necessary for entrepreneurial courses, but it is the difference in degree of how they are applied to new venture creation that is often neglected. In fact, it has been suggested that the differences between emerging and existing businesses are quantum differences, since management work is enacted, interpreted, and retained in a fundamentally different manner when compared to entrepreneurial activity (Gartner, Bird, & Starr 1992). Business entry is a fundamentally different activity from business management; its scope includes but is not limited to:

- The ability to detect and exploit opportunities
- The ability to plan in greater detail and project further in future
- A greater bias towards creativity
- A multidisciplinary focus and process orientated approach
- An enhancement of entrepreneurial behaviours and fostering of self-reliance
- The bridging of gaps between functional areas
- Entrepreneurship studies as a mechanism for fostering community support infrastructure (Gorman *et al.* 1997).

It is also evident that many commerce academics merely tweak the business management subject matter to accommodate entrepreneurship. Realising that the basics of management are fundamentally different to the basics of entrepreneurship, Gibb (2000) juxtaposes corporate business values, beliefs, and ways of seeing and doing things in sharp contrast to those associated with management and small business (e.g. formal vs. informal). Without understanding the difference between management and entrepreneurship, with the former corporatist in nature, possibly anti-entrepreneurial concepts are emphasised in the education system that may perpetuate rather than solve the problem of developing a more entrepreneurial society.

A clear distinction is also necessary between intrapreneurship and entrepreneurship, with the former being essentially about big business, while the typical aim of entrepreneurship education should be the development of a cadre of entrepreneurs who will promote economic growth and create employment.

A distinction can also be made between entrepreneurship and small business management, which often further hampers and offers resistance to the introduction of entrepreneurship as a distinct subject. The term 'small business' often carries a negative connotation associated with limited size and scope. Nonetheless, small business management's objective is to provide learners with management skills for post start-up small businesses. In contrast, the focus in entrepreneurship is on originating and developing new growth ventures (Solomon *et al.* 2002). Investigating proclivity towards entrepreneurship, Stewart, Watson, Carland and Carland (1998) find that psychological dispositions of small business owners were more comparable to managers than to entrepreneurs.

Investigating possible friction issues regarding entrepreneurship courses vs. more generic management courses, Laukkanen (2000) juxtaposes:

- Generic humanistic education vs. contextualised professional training
- Focus on functional specialisation vs. pragmatic competencies.

It seems more is necessary than a built-in generic business curriculum, as such a context-free view met in most business schools implies a neutral non-interventionist approach to business education. Too much generalising and too little contextualising and too much optimism that students can absorb general context-free knowledge and devise local solutions are wishful thinking (Laukkanen 2000). Exploring alternative approaches in university-based entrepreneurial education, Laukkanen (2000) advocates that the university is conceptualised as a regional innovation system, which produces entrepreneurial-oriented and competent individuals, as well as reproduces the social mechanisms that underpin and facilitate entrepreneurship.

## 2.11 Entrepreneurship as a field of study in an African context

In sub-Saharan Africa (SSA), only few colleges and universities offer a degree programme in Entrepreneurship. Makerere University, Uganda, stands out as the best. Most colleges and universities have a course in either entrepreneurship or small business management. Examples are the Small Business Management (or SME management) course of the University of Ghana, University of Swaziland, and University of Nairobi, and Entrepreneurship at the University of Swaziland, and the University of Dar-es-Salem, with an independent entrepreneurship department. All of them are located in the School or College of Business (Bawuah *et al.* 2006).

Because of the structuring of the curricula in SSA tertiary education, those majoring in other degree programmes such as Engineering, Economics, and Medical Science, are prohibited from the opportunity to take a course or two in entrepreneurship. The same can be said of small business management or entrepreneurship courses, even at the Department of Business or Management. The rationale for this pedagogical problem is that, unlike in the United States of America, the colleges and universities in SSA are structured after the ex-colonial nations' higher education systems. Each degree programme is set for its students, and they cannot go into other programmes to take a course. The curricula are structured in such a way that the students must follow them religiously. It is suggested that the SSA educational leaders must find ways to structure their curricula in a way that all or most of their students can take courses in entrepreneurship

Formal education in SSA today is unabashedly oriented towards preparing students for employment in the public sector and already established business entities. The curricula content and context conveyed are that students must be prepared for careers in which they will be working for an existing private business or a public institution (Bawuah *et al.* 2006).

It would seem that the reasons for introducing entrepreneurial studies in African tertiary institutions could be summed up as follows:

- Graduate unemployment
- Paradigm shift – from being an employee to becoming an employer
- In response to making the private sector the true engine of growth – with entrepreneurs as drivers of the engine
- A way of enhancing human resources of African economies towards self-employment
- Entrepreneurial and innovative skills are also needed for renewal of the country's decaying public institutions in Africa (Bawuah *et al.* 2006).

Discussing the modalities of evolving an entrepreneurial university in a knowledge driven economy in Ethiopia, Okpara (2008) suggests Ethiopian universities focus



on quality and not quantity of graduates produced. An entrepreneurial university should adopt a market-based curricula model that is attuned to the global economy. These universities must broaden their sources of income generation and seek increased private sector support to augment funds from government and aid from international donor agencies.

Okpara (2008) analyses in what way the current university system is ill equipped to produce the empowered manpower to compete in a rapidly growing knowledge economy. Ethiopian graduates of today, like graduates in most African countries, are gripped with palpable insecurity and uncertainty about the relevance of their instruction to current market realities; notwithstanding the quality of their degrees and their own ability to excel and actualise themselves on the strength of knowledge gained in the university.

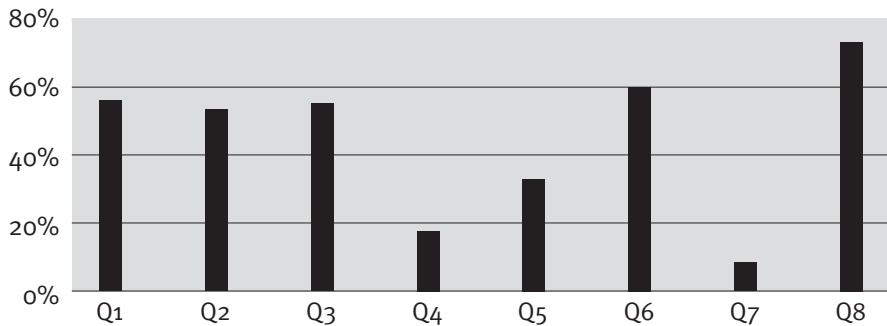
Several recommendations are made by Okpara (2008), which are equally valid for many other African countries:

- To encourage healthy staff movement, interaction, and collaboration across and between Ethiopian universities, and with other sectors of education and national development.
- To provide a learning environment which is conducive to the development of the mind, body, and spirit. Today, students have to contend with tremendous odds in the quest for knowledge, such as over-crowded classrooms, poor teaching and research facilities, outdated curriculum, poor quality lecturers, and squalid and acutely inadequate hostel accommodation.
- There is the need for cooperation between the university and industry in the realignment of curricula for higher education. The cooperation has become imperative in meeting the needs of industry in human capacity. The initiative will assist the university to turn out higher-quality graduates through workplace activities and make the qualifications work-related and competency-based. It will equip university graduates with relevant skills while improving the quality of instructions through exchange with industry personnel to serve as instructors. Such cooperation will enrich the instruction by the participation of experienced professionals.
- The training and retraining of lecturers should be vigorously pursued to stock the university with qualified personnel. The university should beef up the curriculum of various courses by making entrepreneurship education compulsory in order to inculcate the culture and habits of entrepreneurialism into the students, which will in turn prepare them towards creating and managing a business of their own.

In South Africa, entrepreneurial education is partially institutionalised as part of government initiatives to build small, medium, and micro enterprise (SMME) capacity via the National Small Business Act of 1996, and more recently with the newly established Small Enterprise Development Agency (SEDA); it is also linked to the Outcomes-Based Education (OBE) school curriculum. Entrepreneurial studies are also embedded in academic offerings at HEI, and nationally HEI are

active participants in teaching and research via their entrepreneurship centres and business schools.

Based on an approach outlined in Brush *et al.* (2003), an exploratory survey was administered electronically by Urban (2006) in South Africa, to gauge the level of institutional commitment to entrepreneurship studies. Eight issues pertaining to institutional commitment to entrepreneurship were measured country-wide; the results obtained, portrayed in percentages, are represented in figure 2.2 below.



- Q1 Commitment to academic offering in entrepreneurship is increasing
- Q2 Commitment to research in entrepreneurship is increasing
- Q3 Commitment to community outreach in entrepreneurship is increasing
- Q4 Entrepreneurial research is rigorous and of high quality
- Q5 Field of entrepreneurship has a unique theoretical and scholarly domain
- Q6 Specialised doctoral studies and research are required for entrepreneurial scholarship
- Q7 Departments have appointees or capacity to promote and implement entrepreneurial scholarship
- Q8 Entrepreneurial commitment should support student skill development

**FIGURE 2.2:** Institutional commitment to entrepreneurship

*Source: Urban (2006)*

What emerges from this survey is that the HEIs strongly agree that entrepreneurial commitment should support student skill development – this is relevant as most universities currently offer entrepreneurship as a separate module as part of another qualification. Entrepreneurial commitment would allow students from various faculties to develop entrepreneurial skills and exploit the knowledge base of their ‘main’ studies. Although commitment to entrepreneurship research and academic offerings is generally high (above 50%), many of these ‘entrepreneurial’ courses are under different programme names such as management skills, management practice, design project skills, and business studies; this not only obfuscates the real nature of the course content but makes a survey of entrepreneurship offerings difficult to detect. Nonetheless

it is encouraging to see that, in the opinion of the respondents, commitment to entrepreneurship offerings, research, and outreach programmes is increasing. This positive note must be juxtaposed against the cautionary indication that resources and the capacity to deliver and implement entrepreneurship are not available. These limitations could also be the reason why entrepreneurship research is generally perceived to be of low quality. Based on the basic nature of this explorative approach, combined with the relatively low response rate obtained, survey replications are encouraged, which would further enhance and add value to the body of entrepreneurship knowledge in South Africa.

## 2.12 Conclusion

Academic infrastructure for entrepreneurship research and education is growing substantially, and entrepreneurial education is growing fast in many countries, with the number of schools in the hundreds, and dozens of programmes offered by top business schools at the graduate and undergraduate levels.

Ranking university entrepreneurship programmes, several criteria emerged as being fundamental to judge the legitimacy of any field of academic enquiry. Based on organisations engaged in delivering meaningful entrepreneurial outcomes in different contexts through capturing and transferring entrepreneurship across a wide educator community, the experiences and good practices of wide ranging institutions were discussed. Next, obstacles constraining the field were discussed, with specific emphasis on how definitional caveats and theoretical incompleteness may lead to reluctance to accept entrepreneurship as an established discipline.

It was suggested that the study of entrepreneurship would emphasise establishing ontology for entrepreneurship, in that no field can exist without theory, and to create theoretical corpus it becomes necessary to separate applied research from theoretical research by establishing a new science – entrepreneurship. Moreover, the main educational theories anchoring scholarly writings in entrepreneurship at the university level were listed.

Examining entrepreneurship as embodied in different paradigms, it was concluded that due to the eclectic nature of the subject matter, meta-triangulation is most appropriate for studying this multifaceted phenomenon.

Next, five criteria were provided against which to examine whether a field may be considered an established discipline. These included:

- The field must be distinguishable.
- Systematic theory and an established body of literature should exist.
- Authority and professional associations are established.
- Ethical codes and culture are prevalent.
- Career prospects exist. The point here was made that one of the objectives of entrepreneurship education is the establishment of prospective employers and not employees.

Moving to more descriptive content, the extent of participation in entrepreneurship was explored via different institutional formats, and various forms of entrepreneurship programmes currently offered in South Africa were tabulated.

A significant conclusion is that universities are actively pushing entrepreneurship education beyond the boundaries of business schools, and that entrepreneurship offerings come in various shapes and forms. Moreover, sharp distinctions were made between entrepreneurship and generic management and small business management, to allow for the distinctiveness of this emerging discipline. Finally, an African perspective was interrogated where it is intimated that current entrepreneurship studies in Africa are predominantly oriented towards preparing individuals for employment rather than for entrepreneurship. Several reasons for introducing entrepreneurial studies in African tertiary institutions were also made.

Finally, the results of an exploratory survey pertaining to institutional commitment to entrepreneurship were revealed, and replications were encouraged to add value to the body of knowledge in South Africa.

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Stanford Graduate School of Business: <http://www.gsb.stanford.edu/>

Center for Entrepreneurial Studies Stanford Graduate School of Business: <http://www.gsb.stanford.edu/ces/index.html>

The Harvard Business School: <http://www.hbs.edu/>

Arthur Rock Center for Entrepreneurship: <http://www.hbs.edu/entrepreneurship/>

Massachusetts Institute of Technology (MIT): <http://www.mit.edu/>

MIT Sloan School of Management: <http://mitsloan.mit.edu/indexflash.php>

UCLA Anderson School of Management: <http://www.anderson.ucla.edu/>

International council of small business: [www.icsb.org](http://www.icsb.org)

NCGE: [www.ncge.org.uk](http://www.ncge.org.uk)

Global entrepreneurship monitor: [www.gem.consortium.org](http://www.gem.consortium.org)

Companion website: [www.heinemann.co.za](http://www.heinemann.co.za)



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## CHAPTER 3

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# ECONOMIC PERSPECTIVES OF ENTREPRENEURSHIP

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*John M Luiz*

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### 3.1 Introduction

Entrepreneurship plays an important role in economic processes but its study has been marginalised through the dominance of neoclassical economics, which has all but assumed the entrepreneur out of existence. This theoretical neglect is extraordinary given that the real world has elevated the entrepreneur to almost celebrity status and examples abound of how entrepreneurs have acted as catalysts of economic progress. Van Praag and Versloot (2007) on an analysis of 57 recent studies conclude that entrepreneurs have a very specific function in the economy: they create employment and productivity growth, and produce and commercialise high-quality innovations. Entrepreneurial firms also create important spill-overs that affect regional employment growth rates in the long term. We increasingly see a rising contribution of Small and Medium Enterprises (SMEs) and the informal sector as a share of total employment and GDP. Ayyagari *et al.* (2007) in a study of 76 countries find that on average SMEs constitute 64% of the economy while the informal economy on average accounts for 26% of GDP in their sample of developed and developing countries. Therefore, economics cannot and should not ignore the role of entrepreneurship in the real world because its impact is very genuine.

This paper seeks to review the way in which economics deals with entrepreneurship from its Schumpeterian heyday in the 1930s to its demise thereafter. We examine various theories of entrepreneurship and focus on the interplay between the economy and the entrepreneur, putting particular emphasis on the role of the institutional environment.

### 3.2 Theories of entrepreneurship and economics

The research on entrepreneurship is rich and complex. Indeed, merely defining entrepreneurship has spawned a massive literature. Examples of definitions include:

- Schumpeter (1934), who introduced the modern concept of entrepreneurship, defined it thus: *“The carrying out of new combinations we call ‘enterprise’, the individuals whose function it is to carry them out we call ‘entrepreneurs’. These concepts are at once broader and narrower than the usual. Broader, because in the first place we call entrepreneurs not only those ‘independent’ businessmen in an exchange economy who are usually so designated, but all who actually fulfil the function by which we define the concept, even if they are, as is becoming the rule, ‘dependent’ employees of a company, like managers, members of boards of directors, and so forth, or even if their actual power to perform the entrepreneurial function has any other foundations, such as the control of a majority of shares. As it is the carrying out of new combinations that constitutes the entrepreneur, it is not necessary that he should be permanently connected with an individual firm; many ‘financiers’, ‘promoters’, and so forth are not, and still may be entrepreneurs in our sense. On the other hand, our concept is narrower than the traditional one in that it does not include all heads of firms or managers of industrialists, who merely may operate an established business, but only those who actually perform that function. ... But whatever the type, everyone is an entrepreneur only when he actually ‘carries out new combinations’, and loses that character as soon as he has built up his business, when he settles down to running it as other people run their businesses.”* (cited in Carton et al. 1998:2-3)
- Kuratko and Hodgetts (2001) define entrepreneurs as *“individuals who recognise opportunities where others see chaos or confusion. They are aggressive catalysts for change within the marketplace”*.
- *“Entrepreneurship is the pursuit of a discontinuous opportunity involving the creation of an organisation (or sub-organisation) with the expectation of value creation to the participants. The entrepreneur is the individual (or team) that identifies the opportunity, gathers the necessary resources, creates and is ultimately responsible for the performance of the organisation. Therefore, entrepreneurship is the means by which new organisations are formed with their resultant job and wealth creation”* (Carton et al. 1998:1).
- *“Entrepreneurship clearly refers to the capacity for innovation, investment and activist expansion in new markets, products and techniques”* (Leff 1979:47).



- Gartner (1990) lists eight themes that constitute the nature of entrepreneurship: “*the entrepreneur, innovation, organisation creation, creating value, profit or non-profit, growth, uniqueness, and the owner-manager*”.
- Morrison (2000:59) focuses on the social, psychological, and cultural dimensions: “*the process of entrepreneurship has its foundations in person and intuition, and society and culture*”.

Gartner (cited in Carton *et al.* 1998:2) lists 32 definitions of entrepreneurship that have been produced in the literature with the purpose of showing:

... (1) that many (and often vague) definitions of the entrepreneur have been used (in many studies the entrepreneur is never defined); (2) there are few studies that employ the same definition; (3) that lack of basic agreement as to ‘who an entrepreneur is’ has led to the selection of samples of ‘entrepreneurs’ that are hardly homogeneous ... (4) that a startling number of traits and characteristics have been attributed to the entrepreneur, and a ‘psychological profile’ of the entrepreneur assembled from these studies would portray someone larger than life, full of contradictions, and, conversely, someone so full of traits that (s)he would have to be a sort of generic ‘Everyman’.

The entrepreneur becomes superman or wonder-woman!

There are broadly two distinct approaches to defining this concept: the first focuses on the entrepreneurial process whilst the second emphasises the characteristics of the entrepreneur (see Carton *et al.* 1998:2). Neither of these approaches is particularly satisfactory because it is clear that they should not be mutually exclusive. Entrepreneurship is a combination of the process and of the characteristics embedded within the entrepreneur as well as the society and the institutional environment.

In this vein, Ahwireng-Obeng (2006) examines three broad theoretical approaches to the supply of entrepreneurship – the socio-psychological, the socio-cultural, and the economic approaches.

- **The socio-psychological approach**

Most discussions in this area of study usually begin with the work of Max Weber in his famous exposition of “The Protestant Ethic and the Spirit of Capitalism” in which he attempted to establish that the protestant ethic or the ‘minor virtues’ of thrift, hard work, sobriety, honesty, and fulfilment of promises contributed to the successes of capitalist institutions in fostering fast economic progress brought about by a new character type. The Calvinist doctrine which sold the notion of ‘calling’ to believers required them to work out their own salvation through hard work and responsibility and resulted in them channelling their energies through entrepreneurial activities.

- **The socio-cultural approach**

This approach views entrepreneurship as an aspect of cultural change comprising the transformation of human agents and the socio-economic setting in which they operate. It examines present and past political, social,

and economic institutions, their relationships with current values, motivations and incentives, and their conditioning effect on current role structures.

- **The macroeconomic approach**

In the construction of a macroeconomic model of entrepreneurship, an identification problem emerges regarding the distinction between supply and demand determinants. It is normal practice to make the supply schedule a function of socio-psychological and cultural variables and the stock of human capital of the individual. The demand for entrepreneurship then becomes a function of demand for entrepreneurial goods and services which, in turn, depends on prices of production factors, the stock of existing and transferable technology and consumer incomes among others. The macroeconomic approach, therefore, incorporates both quantifiable and qualitative variables of both economic and non-economic description and is the tool of analysis widely used by development economists.

The complex phenomenon of entrepreneurship has many explanations and each has some legitimacy, although there is still much controversy. Part of the reason for this may well be that the discipline is young and straddles many others, including anthropology, sociology, development studies, management, and economics. The focus hereon will be on the approach that economics has taken to unpack the drivers and influence of entrepreneurship.

### 3.3 Entrepreneurship in economics

The discipline of economics has historically had an ambivalent relationship with that of entrepreneurship. Entrepreneurs have been characterised in a number of ways. Jennings (1994:37) cites six functional roles of the entrepreneur in economic thought:

.....

**TABLE 3.1:** The six functional roles of the entrepreneur

Functional role	Theorist
Speculator	Richard Cantillon
Coordinator	Jean-Baptiste Say
Product owner	Frederick Hawley
Innovator	Joseph Schumpeter
Decision maker	Frank Knight
Arbitrageur	Israel Kirzner

Adam Smith's *The Wealth of Nations* published in 1776, which underpinned much of classical economics, saw the capitalist as an owner-manager who pooled the factors of production (land, labour, and capital) into a thriving venture which in turn was the engine of growth and wealth. There are some who argue that this put the entrepreneur at the centre of economic activity although in a relatively unsophisticated manner, whilst others maintain Smith was the start of the omission of the entrepreneur from economic analysis due to its replacement with the capitalist. More explicit conceptualisations of the entrepreneur developed from the nineteenth century onwards, particularly regarding their role in an environment of uncertainty and risk. Table 3.2 presents a summary of entrepreneurial functions developed by early economists.

**TABLE 3. 2:** Summary of entrepreneurial functions described by early economists  
*Source: Jennings 1994:63*

<b>Economist</b>	<b>Concept of entrepreneurial function</b>
Francis Edgeworth	Entrepreneur is a coordinator and middleman who never disappears, even in general equilibrium.
Alfred Marshall	Entrepreneur is a business leader and head of the firm – innovating, coordinating, responding to profit signals, and bearing risk.
Frederick Hawley	Entrepreneur is an owner or enterpriser who makes decisions regarding what product or service is to be produced and is also the bearer of uncertainty.
John Bates Clark	Entrepreneur is not an uncertainty bearer but an arbitrageur who shifts resources toward their most profitable uses.
Irving Fisher	Entrepreneur is a bearer of uncertainty who reduces the randomness of uncertainty by making forecasts and deciding what to do based on subjective speculation. His role as profit receiver makes him an important and distinct economic agent.
Frank Knight	Entrepreneur is a decision maker in an uncertain environment. In that role he determines consumers' wants and secures various services and materials to produce the product or service. Profits received are not for dealing with uncertainty but are the uncertainty-based differences between the anticipated value of resource services and their actual value.

*continues over*

Economist	Concept of entrepreneurial function
Joseph Schumpeter	Entrepreneur is an innovator who carries out new combinations of economic development, which are new goods, a new method of production, new markets, new sources of raw materials, or a new organisational form.

The description in the table details thinking about the task of the entrepreneur in an atmosphere of uncertainty. The entrepreneur develops from a bearer of uncertainty, to an arbitrageur and speculator, and finally the culmination as an innovator through Schumpeter. Joseph Schumpeter, a prominent Austrian economist, challenged various assumptions underlying neoclassical economics. He saw the entrepreneur as the source of new demand through the process of innovation. Entrepreneurs play an important role by challenging the status quo who enter the market using innovations. These innovations challenge existing firms and move buyers to purchase these new commodities, giving the entrepreneurs market share and wealth. As they gain market share at the expense of the older firms, the latter are forced to retrench some workers and lose wealth whilst the new entrepreneurs take on new workers, increase their wealth, and create their own demand. Schumpeter referred to this process as one of creative destruction because entrepreneurs create new wealth through the process of destroying existing markets (Kirchhoff 1997:450). In Schumpeter's analysis entrepreneurs innovate by carrying out one or more of the following activities (Ahwirng-Obeng 2006:190):

- Introducing new goods or a new quality of goods
- Introducing new production methods
- Opening up new markets (domestic or overseas)
- Discovering new sources of supply of raw materials or semi-processed goods
- Reorganising the structure of an industry such as creating a monopoly or breaking up an existing one.

Whilst entrepreneurship had its origins in economic thought, it found itself omitted from economic thinking during the course of the mid-twentieth century. There are two key developments that contributed to this: The work of John Maynard Keynes during the 1930s concerned itself with aggregate demand and the focus shifted towards the macroeconomic forces of government spending, which would force full employment equilibrium. The entrepreneur was reduced to a minor actor, even if Keynes himself wrote of the importance of the entrepreneur with 'animal spirits'. The second development was related to orthodox microeconomic theory and in particular the introduction of mathematics, which was unable to model the role of the entrepreneur in a world

of comparative statics. The beginning of this was the development of neoclassical theory towards the end of the nineteenth century, which subtly undermined the role of the entrepreneur. The extreme assumptions underlying the development of mathematical neoclassical models such as perfect information, homogenous products, price taking, large numbers of buyers and sellers with no influence on price render the entrepreneur redundant. If information is perfect then decision-making becomes merely the mechanical application of mathematical rules for optimisation. It trivialises decision-making, and makes it unfeasible to study the function of entrepreneurs in taking decisions of a particular kind (Casson 2003:9). Furthermore, neoclassical theory demonstrates that wealth will be equitably distributed between buyers and sellers through the invisible hand of markets in which price adjusts to ensure equilibrium. Wealth is created within a circular flow of income through new demand, but herein lies a great weakness within neoclassical models as it does not detail how such new demand occurs (Kirchhoff 1997:449).

Thus in neoclassical economics markets are static whilst in Schumpeterian analysis they are dynamic with the entrepreneur playing that catalytic role. It was Schumpeter who created this new space for the study of entrepreneurs in economics, but it would take another five decades before economics would acknowledge the importance of the entrepreneur with the publication of Birch's work (1979) that small firms dominate job creation and economic growth in the United States. His research found that small firms created 81% of the total new jobs in the USA between 1969 and 1976, and this was subsequently replicated in other country studies. The implications of this on neoclassical economics was profound as it provided evidence that economies of scale do not dominate economic growth since small firms were creating most of the growth, and it made clear that real economies are better described by this process of creative destruction (Kirchhoff 1997:453-55).

Renewed theoretical interest in entrepreneurship in the study of economics emerged primarily through the work of the Austrian school as manifested in the work of Israel Kirzner (who, in turn, built on the earlier work of Von Mises and others). Jennings (1994:102-103) summarises his contribution to the theory of entrepreneurship with three concepts: a) the concept of alertness by individuals to gain pure profits, which is the force that generates market process and direction, b) the entrepreneur, by arbitraging markets, creates a greater consistency of plans, and c) he regarded the ownership of physical resources to be totally distinct from the entrepreneurial process (in stark contrast with Smith). The implication of Kirzner's theory is that the institutional arrangement that encourages individuals to utilise their entrepreneurial ability to the greatest extent is the institutional arrangement, which produces superior results. We also need to mention the work of the Nobel laureate Theodore Schultz who described the symbiotic relationship between entrepreneurship and human capital. He argued that entrepreneurial ability is useful and can be identifiable as a marginal product. Entrepreneurs allocate resources that entail risk, and they are rewarded for this

function because it has economic value. He also criticised the fact that the supply of entrepreneurship is not treated as a scarce resource, which it should because of differences in the allocative abilities of entrepreneurs (Jennings 1994:104). Thus it brings to the fore the qualities embedded within the entrepreneur, and particularly that of human capital as a distinct resource.

By the end of the twentieth century, entrepreneurship studies within economics was finally given the prominence it deserved. There was a greater acceptance of the diversity of market structures and institutions, and a world of imperfect information, as well as an acknowledgement and encouragement of the disruptions being caused by new technologies. The entrepreneur was back, even if it was through the back door. The challenge now facing economics was to (Kirchhoff 1997:457):

- Identify creative destroyers
- Determine where innovative market entry opportunities exist
- Clarify what entrepreneurs need
- Guide economic policy so as to improve entrepreneurs' success.

### 3.4 Entrepreneurship and development

The relationship between entrepreneurship and economic development is a complex one. Wennekers *et al.* (2005) regress global entrepreneurship (GEM) 2002 data for nascent entrepreneurship in 36 countries on the level of economic development, as measured either by per capita income or by an index of innovative capacity. They find support for a u-shaped relationship, implying a different range for entrepreneurship policy across ensuing phases of development. These results imply that a 'natural rate' of burgeoning entrepreneurship is to some extent governed by 'laws' allied to the level of economic development. This means that as a nation develops economically its incidence of entrepreneurship and of new business start-ups is likely to decline until a resurgence occurs at the high end of economic progress. Carree *et al.* (2002) support this conclusion in their study of 23 OECD countries and argue that two regimes may be distinguished. In the Schumpeter Mark I regime ('creative destruction') new entrepreneurs challenge incumbent firms by introducing new inventions (as represented by the period of the second industrial revolution 1860–early 1900s), whilst in the Schumpeter Mark II regime ('creative accumulation') R&D activities of established corporations determine the rate of innovation. Thus the u-shape. The resulting policy conclusions are controversial. The most advanced economies are better off improving incentive structures for business start-ups and promoting the commercial utilisation of scientific results. However, developing nations may be better off pursuing the exploitation of economies of scale, nurturing foreign direct investment, and promoting management education.

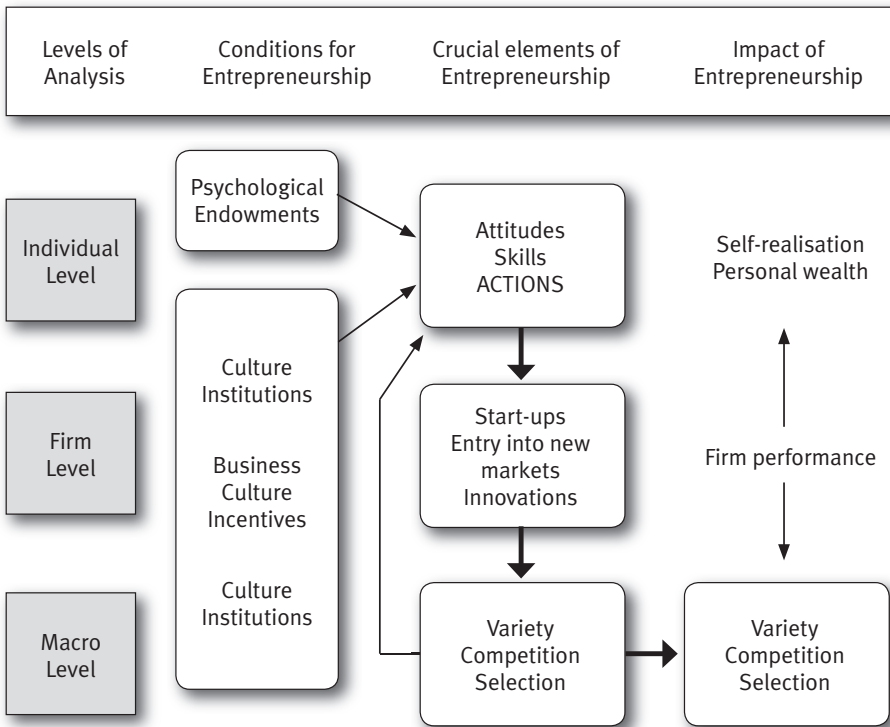
In terms of the relationship between entrepreneurship and economic factors, we are thus left with two possibilities:

- a. The impact of entrepreneurship on economic processes i.e.

**Entrepreneurship —► economic outcomes**

Entrepreneurship is thought to affect economic results through a type of production function. It does so through direct Schumpeterian human capital investment in innovation, which affects the productivity of other inputs. This much is relatively uncontested. In fact, some economics' texts refer to entrepreneurship as a fourth factor of production together with land, labour, and capital. Others see it exerting an indirect impact on these other production factors by affecting their productivity or through the creative destruction of existing technologies with newer ones or by creating new opportunities for the employment of these factors.

The empirical evidence showing the effect of entrepreneurship on economic growth is diverse. Carree and Thurik (2005:457-465) focus on four strands of research. The first deals with the question of the effect of turbulence (the sum of entry and exit in industries or regions as an indicator of entrepreneurial activity) on economic growth. Evidence suggests that the effect of turbulence on economic growth is stronger long term and in the services sector. There is also evidence in the United States and elsewhere (including Latin America, the United Kingdom, and Sweden) that links a greater level of turbulence at the regional level to high growth rates in those regions. The second strand focuses on the effect of the size distribution of firms on subsequent growth, and here the evidence is more conclusive. It shows that areas with a higher proportion of small businesses experience higher levels of productivity growth and economic growth. However, there is a danger of reverse causation in that higher economic growth could also be the cause of more small businesses. The third strand investigates the effect of the number of market participants in an industry (as a proxy for entrepreneurial activity) on economic growth. The evidence is strong that an increased number of competitors has a positive effect on the rate of total factor productivity growth. The final strand concentrates on the effect of the number of self-employed on subsequent growth, and the substantiation is mixed in this regard, and indeed there may be an optimal level of self-employment. A glut of self-employment may cause the average scale of operations to remain below optimum, whereas a shortage of business owners is likely to diminish competition, competitiveness, variety, learning, and efficiency. Figure 3.1 provides a framework for linking entrepreneurship to economic growth (cited in Carree and Thurik 2005:464). It illustrates that entrepreneurs need a vehicle to transform their personal attributes and ambitions into actions. This happens at the firm level but is influenced by the institutional framework, which defines the incentives and barriers facing potential entrepreneurs. As entrepreneurial activity is stimulated it leads to an evolutionary process of competition, innovation, and experimentation, which results in higher productivity and growth.



**FIGURE 3.1:** Framework for linking entrepreneurship to economic growth  
*Source: Cited in Carree and Thurik 2005:464*

- b. The reverse is also possible, namely that entrepreneurship itself is an outcome of economic variables i.e.

**Economic variables → entrepreneurial outcomes**

Here there are several possibilities: At its simplest, one could argue that robust economic growth itself creates the opportunities for entrepreneurs who are responding to an expanding demand. Entrepreneurship thereby becomes endogenous to economic expansion, although it will then reinforce this economic growth and create an accelerator type effect.

Another possibility is that the economic rules of the game (the institutions underpinning economic activity) determine whether entrepreneurship is stimulated and whether it is allocated to productive or unproductive directions, thereby affecting the economy's productivity growth. It does so by specifying the relative payoffs to different entrepreneurial activities. This view is best represented in the work of William Baumol. Baumol (1990) illustrates, by using historical evidence, that entrepreneurs respond to the incentive structures underpinning an



economy. Institutional factors provide incentives for rent-seeking entrepreneurial activities (such as crime and corruption) versus socially productive entrepreneurial activities (such as the establishment of new enterprises) (Shane 2003:145-46). When property rights and the rule of law are secure and the institutional environment is such that it does not suppress legitimate entrepreneurial activity, then entrepreneurs will respond appropriately through socially productive investment. In fact, Lu (1994) goes one step further and maintains that productive and unproductive entrepreneurial activities are substitutes and the choices depend upon the governing incentive structure – both formal and informal. Fadahunsi and Rosa (2002) investigate this hypothesis using Nigerian traders as a case study, and they found that the lack of rule of law and property rights led entrepreneurs to engage in corruption to make possible their entrepreneurial endeavours. The importance of bribery to successful entrepreneurial action also led to the widely held view of Nigerian society of accepting illegal behaviour as justifiable aspects of business activity (Shane 2003:146).

Thus this institutional environment (the socio-economic and political milieu in which an entrepreneur operates) influences people's willingness to engage in socially productive activity (see box 3.1 for a summary).

**Box 3.1: The effect of the institutional environment on opportunity exploitation**

*Source: Shane 2003:146*

<b>The effect of the institutional environment on opportunity exploitation</b>
<b><i>Economic environment</i></b>
<ul style="list-style-type: none"> <li>• Income, capital gains and property taxes reduce the level of opportunity exploitation.</li> <li>• Economic growth and societal wealth increase the level of opportunity exploitation.</li> <li>• Low rates of inflation and stable economic conditions increase the level of opportunity exploitation.</li> </ul>
<b><i>Political environment</i></b>
<ul style="list-style-type: none"> <li>• Freedom increases the level of opportunity exploitation.</li> <li>• Strong rule of law and property rights increase the level of opportunity exploitation.</li> <li>• Decentralisation of power increases the level of opportunity exploitation.</li> </ul>
<b><i>Socio-cultural environment</i></b>
<ul style="list-style-type: none"> <li>• Social desirability of entrepreneurship increases the level of opportunity exploitation.</li> <li>• Presence of entrepreneurial role models increases the level of opportunity exploitation.</li> <li>• Specific cultural beliefs increase the level of opportunity exploitation.</li> </ul>

Box 3.1 is supported by an abundance of empirical evidence that the institutional environment does indeed affect the exploitation of entrepreneurial opportunities (see Shane 2003: Ch 7). There are a number of conditions necessary to allow for entrepreneurship to thrive, which elaborate upon Box 3.1. Baumol *et al.* (2007:95-131) highlight four such conditions:

### **(1) Easy to start and grow a business**

The regulatory environment plays an important role in determining the costs of starting or growing a business. We find that countries that have high levels of innovative entrepreneurial enterprises generally have a facilitating business environment. Baumol *et al.* (2007) argue that to encourage entrepreneurship, governments should lower the costs of formality (business and property registration and ease of hiring and firing workers), have a workable bankruptcy system in place, and facilitate the formation and growth of their formal financial sectors so as to channel resources to innovative entrepreneurs.

The World Bank's (2006) report on *Doing Business* internationally highlights the differing environments facing businesses. For example, the Bank concludes that on average it takes 59 days and 122% of per capita annual income to start a business in the poorest countries, but only 27 days and 8% of annual per capita incomes to do so on average in countries belonging to the Organisation for Economic Cooperation and Development, or OECD (World Bank 2006). Unfortunately, the countries that most need entrepreneurs to create jobs and boost growth put the most obstacles in their way. We find that when the regulatory environment is liberalised that it has significant effects in stimulating productive activities. The reasons are self-evident and result from businesses spending less time and money dealing with regulations and instead spending their energies on developing and marketing their products.

In terms of bankruptcy protection, it is equally important that the cost of exiting or failing is not too severe as this would act as discouragement for innovative and risk-taking initiatives. For example, the United States has taken a more enlightened attitude towards bankruptcy by affording protection to defaulters. The result is a society that penalises failure less and hence encourages more venture and entrepreneurship.

The financial system is vital in that it provides the capital required to fund entrepreneurs and establish businesses. Financial intermediaries that are efficient in sourcing funds and investing them appropriately are more likely to get savers to be more risk-friendly with their funds which should result in more investment and entrepreneurship. Also effective venture capital funds could not exist without an active stock market.

### **(2) Rewards for productive entrepreneurial activity**

Entrepreneurs must be rewarded for their success if we are to encourage productive activity. Several institutions are necessary in this regard: the rule of law (effectively enforced), intellectual property protection (but not too much), taxes that are not

unduly onerous, and reward mechanisms to facilitate innovation. In effect, this condition talks to the necessity of individuals being able to capture the fruits of their work. Entrepreneurs must have the rights to the factors of production to successfully pursue their endeavours. This requires effective property rights and the enforcement of contracts. On the taxation side, high taxes act as a major disincentive to productive entrepreneurship because it results in a higher proportion of the rewards being directed elsewhere. Lastly, economies need to reward and protect innovation, and this requires an appropriate protection of new ideas through some form of patent protection. Patents provide the required incentives for investment in R&D but must not be unjustly awarded as that may have the opposite effect.

### (3) Disincentives for unproductive activity

Unproductive activities refer both to unlawful (theft, bribery, and corruption) and lawful efforts to redistribute the economic pie rather than to contribute to the growth of the pie. The latter refers to rent-seeking or litigious behaviour that seeks to benefit narrow interests. Whilst any society engages in some redistributive activities, if this is left unchecked, then it can become the dominant activity, which will result in the shrinkage of the economic pie.

### (4) Keeping the winners on their toes

It is equally important that once entrepreneurs succeed they continue to be induced to keep innovating rather than to turn to rent-seeking to protect themselves from competitors. Baumol *et al.* (2007) refer to two institutions that are essential in this regard: antitrust law and enforcement, and openness to international trade and investment. In the first regard competitors should not be allowed to fix prices; mergers between dominant firms in concentrated markets ought not to be sanctioned; and firms with market power should not be allowed to abuse that power. With regard to the latter, opening up economies to international economic pressure is a very effective way to keep domestic firms on their toes and innovating. There are several major examples to support this, and perhaps the most significant is the case of China which isolated itself from international influences upon the arrival of the Portuguese in the region, which resulted in the retardation of Chinese society and innovation for centuries, until it was finally cracked open post Mao. Unfortunately, domestic firms often spend significant resources in lobbying government for protection from outside competitors, which does little to encourage competitive solutions and innovation.

Baumol *et al.* (2007) identify a range of other factors that have been put forward as essential for economic success at the frontier:

- **Culture**

A number of prominent social scientists have pointed to the importance of culture in promoting development and entrepreneurship. Whilst not denying that culture has some influence, we are wary of overestimating its impact. How does one explain the differential economic outcomes in North and

South Korea, or East and West Germany, using a cultural argument when it is clearly a function of the institutional environment? Or indeed how does culture explain the recent turnaround in India, China, and Ireland?

- **Education**

Education is a necessary but insufficient condition for economic advance. Clearly, a well educated workforce is important in the development of new ideas, innovation, and productivity, but this needs to be supported by the appropriate institutions. As technology becomes more advanced and we move further into the era of the knowledge economy, we are likely to see education play a more important role.

- **Macroeconomic stability**

This is likewise an important background factor in that a stable macroeconomic environment creates less economic crises and hence promotes growth and opportunity.

- **Democracy**

This is a highly contested area and tends to be plagued by ideological influences. We have, in fact, seen various authoritarian regimes perform very well – South Korea and Singapore in the 1960s and 1970s, and China post 1980 come to mind. It is, however, likely that in an information and knowledge based economy, freedom of ideas will become more important, and democratic societies could well become more required.

To conclude this section, economists would argue that there is a strong case to be made that entrepreneurship is itself a consequence of the adoption and development of institutions that encourage entrepreneurial behaviour. This in turn will stimulate economic development and growth, and that to stimulate entrepreneurship we should focus on getting the institutions right (Boettke and Coyne, undated). Institutions determine not only rules of the game and the certainty thereof, but also determine the costs of action and the incentive structure facing economic agents. Hernando de Soto (2000) has exposed the damaging effects of heavy business regulation and weak property rights in developing countries. In particular, he has illustrated the dead capital that many potential entrepreneurs sit on because they are unable to leverage it due to poor securities, title, contracts etc. In effect, these potential economic agents are rendered redundant because of the ineffective institutional environment. Many developing countries are sitting atop enormous wealth, both physical and human, which they are not tapping into because of unsuitable environments. All people have entrepreneurial potential (be it to a greater or lesser extent), but to harness this prospective requires that we provide them with favourable rules of the game.

### 3.5 Government, economic policy, and entrepreneurship

The role of government in stimulating entrepreneurship has received much attention although there is controversy as to how effective government action has been in this regard. Economic theory justifies government intervention where there is a divergence between private and social returns leading to a market failure. Where social returns exceed private benefits positive spillovers exist and we may experience an underinvestment relative to the social benefit. This may necessitate some form of public subsidy. There has been an array of public policies aimed at assisting SMMEs and enhancing entrepreneurship. In Table 3.3 we highlight a number of such areas and assess their effectiveness.

**TABLE 3.3:** Illustrations of public programmes to assist SMMEs and enhance entrepreneurship

Source: Storey 2005:488

SMMEs Agenda				
Problem	Programme	Description	Country	Success
1. Access to loan finance	Loan Guarantee Scheme	SMMEs without access to own collateral obtain access to bank loans by state acting as guarantor	UK, USA, Canada, France, Netherlands	Generally viewed as helpful, but small scale impact on the overall financing of SMEs in most countries
2. Access to equity capital	Enterprise Investment Scheme	Tax breaks for wealthy individuals to become business angels	UK	Unknown
3. Access to markets	Europartenariat	Organisation of trade fairs to encourage cross-border trade between SMEs	EU	General satisfaction amongst firms that participated
4. Administrative burdens	Units established within government to seek to minimise administrative burdens on smaller firms	Sunsetting legislation, deregulation units	Netherlands, Portugal, UK	The view of small firms themselves is that bureaucratic burdens have increased markedly in recent years
5. Science parks	Property based developments adjacent to universities	Seek to promote clusters of new technology based firms	UK, France, Italy, Sweden	Conflicting findings on impact of SPs on performance of firms

*continues over*

<b>SMMEs Agenda</b>				
<b>Problem</b>	<b>Programme</b>	<b>Description</b>	<b>Country</b>	<b>Success</b>
6. Managed workspace	Property provision to assist new and very small firms	Often called business incubators, these provide premises for new and small firms on 'easy-terms'	World-wide	General recognition that such initiatives are of value
7. Stimulating innovation and R&D in small firms	Small Business Innovation Research Programme	\$1 billion per year is allocated via a competition to small firms to stimulate additional R&D activity	USA	Lerner implies SBIR enhances small firm performance; but Wallsten is unable to show it leads to additional R&D
8. Stimulating training in small firms	Japan Small Business Corporation (JSBC)	JSBC and local governments provide training for owners and managers of small firms. The training programme began in 1963.	Japan	Unknown
<b>Government Agenda</b>				
<b>Problem</b>	<b>Programme</b>	<b>Description</b>	<b>Country</b>	<b>Success</b>
1. Entrepreneurial skills	Small Business Development Corporations (SBDCs)	Counselling is provided by SBDC mentors to small business clients who may be starting a business or be already trading	USA	This study finds SBDC clients have higher rates of survival and growth than expected. Reservations over these findings are found in this text.
2. Entrepreneurial awareness	Entrepreneurship Education	To develop an awareness of enterprise and/or an entrepreneurial spirit in society by incorporating enterprise into the curriculum	Australia, Netherlands, but leading area was Atlantic Canada	Conventional assessments are particularly difficult here because of the long 'lead times'
3. Special groups	Law 44	Provides finance and mentoring advice to young people in Southern Italy, where enterprise creation rates were very low	Southern Italy	An expensive programme, but most studies show that survival rates of assisted firms are above those of 'spontaneous' firms

These interventions have often been undertaken without any clear objectives. In Europe the focus tends to be on SMMEs as a form of job creation, whilst in the USA the emphasis has been on competition and innovation. Very often the focus has been on just doing something and responding to pressure rather than proactively packaging the interventions with clear deliverables. The policies examined in this section highlight those of the industrialised world. In the next section we turn to the African experience.

### 3.6 Entrepreneurship in African development

The role of entrepreneurship in African development is complicated by the fact that the SMME sector is far from homogenous. It ranges from sophisticated IT firms and family owned engineering firms to survivalist enterprises living from hand to mouth. This makes a common policy response almost impossible. The focus of public policy has very much been on entrepreneurship as a response to high unemployment. It is also often associated with various forms of promoting the indigenous ownership of enterprises as a reaction to the colonial legacy. Much of the SMME activity which exists in Africa is at the basic retail level. African SMMEs frequently struggle with their place in the overall supply chain as large businesses do not, as a rule, prefer doing business with small enterprises (see Luiz 2002).

Naude and Havenga (2007:34-41) comment that size distribution of firms in Africa is heavily skewed towards the smaller firms for various reasons, including shortcomings in Africa's legal and financial systems, human capital endowment, market size, and social fragmentation. But they cite studies which find that less than 1% of these grow to ten or more employees whilst most stagnate at start-up size. This again reinforces the survivalist nature of SMMEs. They also point to the fact that very few of these SMMEs participate in international trade because they have neither the expertise nor the financial resources necessary to export. Indeed access to finance is one of the major constraints to entrepreneurial success, and various surveys have illustrated that personal savings rather than bank loans are the main form of start-up funding. The formal financial markets are mostly underdeveloped and service the larger enterprises. Because of the lack of collateral, small firms therefore rely on informal credit and insurance schemes. There has also been little technological transfer and development through the SMME sector in Africa because of their lack of resources (physical, financial, and human) to effectively adapt and adopt new technologies. Lastly, Naude and Havenga note the lack of industrial clusters in Africa and relate this to the low levels of efficiency of small firms and the low incidence of subcontracting between large and small firms.

Therefore, whilst there is an abundance of SMMEs in Africa, it is a symptom of its underdevelopment rather than of its thriving. The focus in Africa needs to be on assisting small firms to make the transition to meaningful producers

and employers. This will require not only access to resources but, perhaps more importantly, access to markets both internally and externally. SMMEs need help to move beyond the economic periphery of the mainstream economies. The development of the African continent will require that we expand the size and impact of the private sector, and this in turn will depend upon how successful we are in developing truly successful small enterprises.

### 3.7 Immigration as a case for the institutional impact on entrepreneurship

Various explanations have been put forward as to what determines the conditions for successful entrepreneurial activity in an economy. Certainly there is no simple explanation for this complex phenomenon, and we have to accept a multi-faceted account that takes into consideration both individual and institutional characteristics. The former has been well researched and is dominant in the management disciplines, but economics has not done justice to the latter. We explored this in some detail, but here we highlight a particular conundrum that is best explained by an institutional rationalisation, namely why it is that immigrant societies are often more entrepreneurial than their people of origin.

There is substantial evidence that immigrants have made ample contributions to entrepreneurial development. For example, in the USA the rate of entrepreneurial activity for immigrants in 2005 was 0.35% compared to 0.28% for native-born Americans (Fairlie 2006). In other words, approximately 350 out of 100,000 immigrants started a business per month in 2005 compared to 280 out of 100,000 native-born Americans. Research commissioned by the National Venture Capital Association similarly finds that while legal immigrants constitute approximately 8.7% of the population, an estimated 47% of private venture-backed firms in the United States were founded by immigrants. Some 87% of venture-backed companies started by immigrant entrepreneurs are technology related, in such sectors as high-tech manufacturing, information technology, and life sciences. In the field of high-technology manufacturing, immigrant-founded companies constitute 40% of publicly traded venture-backed companies. Why is this the case?

Sowell (1995) looks at six high-achieving migrant communities. He starts with German migrants to the Baltic States, Poland, Russia, South America, and the United States, and describes their contributions to brewing, optics, industrial manufacturing, and educational institutions from kindergartens to research-oriented universities. By contrast, the Japanese first settled in the United States, Brazil, Peru, and Canada as migrant labourers with few technical skills, but their culture enabled them to overcome discrimination, become independent farmers, and join the middle class. The Italian migrants to Argentina, Brazil, the United States, and Australia were industrial workers, masons, winemakers, fishermen, and vegetable growers. The Chinese migrants, numbering 36 million, settled



mainly in Southeast Asia, where they started out in difficult, dangerous work and eventually became financiers of rice production in Thailand, merchants and industrialists in Malaysia and Indonesia, and retailers in the Philippines. In medieval Europe, Jews were peddlers, artisans, moneylenders, and rent and tax collectors. In Eastern Europe they were craftsmen, cobblers, bakers, and tailors. In societies as different as the Soviet Union, Australia, and Argentina, they contributed their skills to universities, commerce, industry, and the professions. In the nineteenth century, millions of unskilled Indians settled overseas as indentured labourers in eastern and southern Africa, Ceylon, Malaya, Fiji, Trinidad, British Guiana, and Mauritius. In the middle of the twentieth century, educated Indians settled in the United States, Canada, and the United Kingdom. Today, a large proportion of overseas Indians are professionals such as electronics engineers, doctors, bankers, and merchants (Weiner 1996). According to Sowell, the key elements in the global success of these six migrant communities were human capital (education and skills) and cultural capital (risk-taking, self-reliance, thrift, cohesion, work habits, and concern for their children's future).

Weiner (1996) furthermore states that the cultures that gave rise to successful entrepreneurs often fail to produce entrepreneurship at home. Indians and Chinese, for example, have been far more entrepreneurial abroad than at home, at least until recently. Clearly, the structure of the economy mattered, in addition to the culture of the immigrants. Then too, migrant communities that do well in one country do not necessarily do as well in another. Second-generation Arabs and Turks appear to be doing better in the United States than they are in France and Germany. Culture in these cases is presumably the same, yet the outcomes differ. The ease with which citizenship is acquired, the acceptance of cultural and religious diversity by the host population, the broader institutional environment, and educational opportunities may be factors in explaining the differences.

Various theories have been posited as to understanding the nature of immigrant entrepreneurship. Aldrich and Waldinger (1990:114) provide a framework built on three interactive components:

- (1) *Opportunity structures* consist of market conditions which may favour products or services oriented to co-ethnics, and situations in which a wider, non-ethnic market is served. Opportunity structures also include the ease with which access to business opportunities is obtained, and access is highly dependent on the level of interethnic competition and state policies.
- (2) *Group characteristics* include predisposing factors such as selective migration, culture, and aspiration levels. They also include the possibilities of resource mobilisation, and ethnic social networks, general organising capacity, and government policies that constrain or facilitate resource acquisition.
- (3) *Ethnic strategies* emerge from the interaction of opportunities and group characteristics, as ethnic groups adapt to their environments.

Likewise, Zhou (2004) provides various explanations for the causes of ethnic immigrant entrepreneurship by reviewing the extensive literature. Some of the

determinants discussed are listed below (see Zhou 2004 for a list of the appropriate references and empirical evidence to support these points):

- Several theories have converged on the effects of key structural factors and group or individual characteristics, which may either pre-exist before immigration or be adopted upon arrival in a host country. For example, what immigrants bring with them – motivation, human capital, and financial/material resources; how they come – legal versus undocumented; and under what conditions they left their countries of origin and the contexts of reception (e.g. pre-existing ethnic communities, government policies, societal reception).
- Racial discrimination erects structural barriers to prevent immigrants from competing with locals on an equal basis in the mainstream economy, and immigrants are therefore forced to carve out other niches for themselves.
- Linguistic isolation, such as a lack of proficiency in English, pushes them towards self employment.
- At the group level, various explanations have been put forward such as imported and reactive cultural values, behavioural patterns, social structures, collective resources, and coping strategies. For example, ethnic solidarism functions to collectively reinforce norms, regulate intra-ethnic competition, and mobilise resources through mutual aid societies and credit associations, all of which support immigrant entrepreneurship.

These explanations point to the anomaly of high levels of immigrant entrepreneurship, which contradict levels of entrepreneurship by both locals in the adopted and original countries. Even once we make provision for issues of self-selection, we are still left with the only available explanation being one of the institutional structures to be found in the host country. This is especially so if we adopt a broad definition of institutions to incorporate both the formal and informal structures. The latter would include social norms and issues related to social capital, and would hence incorporate almost all the factors raised above by previous theories. Economists have a major contribution to make in developing our understanding of the institutional determinants of entrepreneurship as is highlighted by the immigrant experience. Not only do we need to unpack how the formal regulatory environment (such as tax and labour laws) affects entrepreneurs, but we also need to get a better understanding of the informal institutional impact.

Institutions matter. The immigrant experience provides us with an illustrative social experiment of natural control. The Greeks in the USA and Australia versus those in Greece; the Chinese in Canada, the USA, Singapore versus those back home; the Indians, Italians, Iranians, etc. – all provide indications of highly entrepreneurial immigrant societies. This would indicate that entrepreneurial aptitude exists within all societies and cultures, and what is required for its expression are the appropriate institutional structures. If this is true, then it has major implications for the discipline of entrepreneurship because it turns cause and effect upside-down.

### 3.8 Conclusion

Economics has not been kind to the study of entrepreneurship. Although Schumpeter is often regarded as the modern father of entrepreneurship studies, economics has by and large forgotten the entrepreneur. S/he may not be required in the neoclassical world of perfect information, but in the real world the entrepreneur does play a critical role as a catalyst for economic progress and technological innovation. In this paper we have outlined various theories regarding entrepreneurship and have illustrated how intertwined the economy and the entrepreneur are, and that the direction of association goes both ways.

There is an abundance of historical evidence that the entrepreneur has moved economies from one phase of progress to the next. Two very dramatic examples include the industrial revolution with the invention of steam-power, and more recently the contribution of various innovations in ICT where individual entrepreneurs have come to the fore. None of this could have happened without the appropriate institutional domain. We have illustrated the importance of an appropriate institutional environment that creates the framework in which entrepreneurs can thrive. This includes economic regulation, taxes, the rule of law, the political and social climate, and so forth. All of these are important because they determine the incentive structures facing the entrepreneur, and economics has demonstrated repeatedly that incentives always matter. Individuals' actions are fashioned by their response to incentives, which either then release positive or negative entrepreneurial energy or indeed inertia. Economics has a major contribution to make in the study of entrepreneurship, not least of which in the area of how institutions fashion incentives and thereby entrepreneurship. Our experience of the real world has demonstrated that assuming away the entrepreneur does not make it so.

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## CHAPTER 4

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# ENTREPRENEURSHIP IN THE FIELD OF DEVELOPMENT ECONOMICS

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*Wim Naudé*

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### 4.1 Introduction

This chapter aims to explore the role of entrepreneurship in the field of development economics. This is done in a twofold manner. First, the chapter asks how the concept of entrepreneurship relates to the study field of development economics. Second, the relationship between entrepreneurial activity and economic development is explored by providing a short overview of how entrepreneurship differs between advanced and developing economies, and by discussing a number of theoretical considerations in formalising the role of the entrepreneur in the economic development process.

In practice, the private sector has been remarkably resurgent in the global economy, particularly over the past 30 years. Two major global events stand out. The first is China's economic reforms, which started in 1978 and have seen simultaneously the emergence of millions of new entrepreneurs and a significant decline in world poverty. According to Klasen (2008) the single most important policy event from a poverty reduction point of view during the twentieth century was the reforms in China, which permitted private entrepreneurial initiatives in rural, agricultural areas. The effect was to lift hundreds of millions of people out of poverty. The second is the collapse of the Soviet Union about ten years later and the end of the Cold War: an event which heralded economic transition towards private-sector dominated economies in Russia, Eastern Europe, and many parts of Africa. The impact of these events on private sector development, and hence entrepreneurial activity, was facilitated by, and in turn facilitated, the globalisation of the world economy through advances in information and communication technologies and through trade liberalisation. Today, many policy makers, aid

agencies, donors, and international development institutions are advocating the promotion of entrepreneurship as a tool for economic development – it has even been called upon as a requirement for mitigating the effects of climate change.

In order to put the confidence in private sector entrepreneurial activity in a proper, perhaps more realistic perspective it has become necessary to ask some hard questions, such as how entrepreneurship differs between developing, emerging, and advanced economies and why. What are the associations between various definitions of entrepreneurship and economic growth? Can policy interventions improve the extent and impact of entrepreneurship on economic growth, and if so, how? What does an endorsement of entrepreneurship imply for the role of a (developmental) state? The greater availability of comparable data on entrepreneurship across countries over the past decade, as well as a growth in cross-country and historical case studies, have started to open up possibilities for exploring these relations and perhaps clarifying and qualifying our views on the potential and limitations of entrepreneurship. Hence, the first purpose of this chapter is to survey what answers we can formulate to these questions based on existing evidence, and identify gaps for further research.

Similarly, in scientific/academic circles there has been a boom in entrepreneurship research over the past 30 years. This research, which has been mainly conducted in the advanced economies of the West, has generally departed from the premise that entrepreneurship is beneficial for economic growth and development, and proceeded to study the many facets of the concept and process of entrepreneurship. For example Anokhin *et al.* (2008:117) state with great certainty that “Entrepreneurship is the main vehicle of economic development”.

From a strict scientific point of view, however, it may not be so clear. A complicating issue is that entrepreneurship is a concept that is applied across various disciplines. Also, claims for the economic development role of entrepreneurship are most often made in business and management literature and not in the development economics literature. In fact, the traditional development economics literature has generally ignored entrepreneurship. In this development economics perpetuates the tradition of the early classical economists who, with the exception of Cantillon, generally omitted entrepreneurship from their analyses of economic development. According to Lewis (1988:35) Adam Smith, a founding figure in modern economics, “detested business men”. Widely read development economics textbooks such as the four-volume *Handbook of Development Economics* and the *Leading Issues in Development Economics* do not contain a single chapter or any substantial section on entrepreneurship.

The main body of entrepreneurship literature as found in the business and management literatures has, despite recognising the potential importance of entrepreneurship for economic development, also failed to develop theoretical models to link entrepreneurs with the development outcomes of their activities. In this regard Audretsch *et al.* (2007:1-2) describe a ‘scholarly disconnection’ stating that “management – the academic discipline most squarely focused on entrepreneurship – has typically not considered the implications for the

broader economic context”. It can also be mentioned that Shane (1997:86) who reviewed 472 entrepreneurship papers published in 19 different international journals found that amongst the 13 most frequently published authors, all resided in advanced economies and their work dealt with advanced economies. The situation led Lingelbach *et al.* (2005:1) to exclaim that “Entrepreneurship in developing countries is arguably the least studied significant economic and social phenomenon in the world today”.

The second broad purpose of this chapter is to attempt to outline how the gap – the ‘scholarly disconnection’ – between the entrepreneurship and development economics disciplines can be bridged. This will be done by surveying some of the recent theoretical advances in economics and development economics, and by identifying to what extent these are consistent with the growing mass of empirical evidence (or stylised facts) about entrepreneurial behaviour. It will specifically take into consideration some of the recent theoretical literature that suggest that entrepreneurship may not always be beneficial for economic development.

In the next section the concept and definitions of entrepreneurship are discussed, in order to ask which concept is most appropriate from a development economics perspective. Then we look at a macro-economic profile of the extent and role of entrepreneurship in the ‘wealth of nations’. Here the increasing recent availability of data, which measures aspects of entrepreneurship at the cross-country level to identify how entrepreneurship differs between developing and advanced economies, is used. Research based on this data is surveyed to clarify the impact of entrepreneurship on macro-economic outcomes such as growth. In the next section, we move towards theoretical considerations of entrepreneurship in development. The requirements for a ‘general theory’ of entrepreneurship in development are identified, and old and new ideas about the role of entrepreneurship in both stimulating and hampering economic development are surveyed.

## 4.2 Entrepreneurship and the task of development economics

There are a plethora of definitions of entrepreneurship (Davidsson 2004:1). Wennekers and Thurik (1999:30) identify 13 distinct roles of an entrepreneur. One reason for the multiplicity of definitions/roles is due to the fact that entrepreneurship is studied “in virtually all disciplines ranging from social anthropology to organisational theory to mathematical economics” (Henrekson 2007:717). From a development economics point of view it is useful to classify entrepreneurship definitions into *behavioural*, *occupational*, and *outcomes* definitions.

### Behavioural definitions

Schumpeter's (1950:1961) well-known view is of the entrepreneur as the coordinator of production and agent of change ('creative destruction'). As such the entrepreneur is an innovator. Kirzner (1973) described the entrepreneur not primarily as someone who initiates change, but who facilitates adjustment to change by spotting opportunities for profitable arbitrage. Knight (1921) emphasised the uncertainty attached to the exploitation of opportunities. According to Schultz (1975:843) the entrepreneur is anyone who can "perceive an economic disequilibrium, evaluate its attributes ... and if it is found to be worthwhile to act, reallocate their resources". Kanbur (1979:773) has the notion of the entrepreneur as one who 'manages the production function' by paying workers wages (which are more certain than profits) and shouldering the risks and uncertainties of production. The way in which entrepreneurs discharge these functions would often, although not exclusively, be through the creation of a new firm, as defined by Hart (2003:5) who sees entrepreneurship essentially as the "process of starting and continuing to expand new businesses". Most new firms are small firms, and most firms in developing countries are generally small, so that a substantial part of the entrepreneurship literature is concerned with the dynamics of small and medium enterprises (SMEs).

It is implied, especially from Schultz's (1975) definition of entrepreneurship, that entrepreneurship need not result in creation of new firms. This view has led to the popular definition of entrepreneurship as the "discovery and exploitation of opportunities" (Shane and Venkataraman 2000). This does not refer to firm creation – opportunities can be discovered and exploited without the creation of a new firm. According to Hitt *et al.* (2001) entrepreneurship can also be seen as part of the management function within existing firms. More recently the behavioural concept of entrepreneurship has even been expanded to include 'corporate entrepreneurship/strategic entrepreneurship' and 'intrapreneurship', which has been defined as the "pursuit of creative or new solutions to challenges confronting the firm" (Antoncic and Hisrich 2001:495) as well as various notions of non-market (social) entrepreneurship (see the discussion in Acs and Kallas 2007:28-35).

Behavioural definitions of entrepreneurship also extend to the discovery and exploitation of opportunities across national borders. Here, the sub-field of international entrepreneurship (IE) evolved since the mid 1990s. International entrepreneurship has been defined as the "discovery, enactment, evaluation, and exploitation of opportunities – across national borders – to create future goods and services" (Oviatt and McDougall 2005:540). The field of international entrepreneurship may be particularly relevant for developing countries who seek improved integration with the global economy, although so far it has largely been confined to advanced economies.

The above definitions of entrepreneurship are all behavioural definitions. In addition one can also distinguish occupational and outcomes definitions of entrepreneurship.



### Occupational definitions

In occupational definitions entrepreneurs are the self-employed; based on the notion that a person can either be unemployed, self-employed, or in wage employment. It is measured either statically, through the number of self-employed (as in the International Labour Organisation's surveys) or dynamically, through the rate of start-ups (as in the Global Entrepreneurship Monitor's surveys) (Wennekers and Thurik 1999). In the economic development literature this definition of entrepreneurship is perhaps encountered most often, due to unemployed persons who seek to eke out a living through informal self-employment in SMEs (Banerjee and Duflo 2007).

Because many of these entrepreneurs are not in self-employment by choice but by necessity, a distinction is often made in the measurement of entrepreneurship between *necessity entrepreneurs*, and *opportunity entrepreneurs*. The former is self-employed because of the lack of wage employment, while the latter is self-employed by choice, in order to exploit some perceived 'opportunity' (see the Global Entrepreneurship Monitor, GEM) – or to overcome regulations or avoid taxes. This has been described as 'evasive' *entrepreneurship* (Henrekson 2007; Coyne and Leeson 2004). As a result the GEM has attempted to measure within the scope of 'opportunity' entrepreneurship what they term '*high potential total entrepreneurial activity*' (Wong *et al.* 2005:341).

Depending on the extent of self-employment a distinction is also made in the literature between latent, nascent, and habitual entrepreneurs. A *latent entrepreneur* is a person who would prefer to be self-employed and who is considering seeking or is actively seeking the opportunity (Blanchflower *et al.* 2001:680). In the OECD, about 25% of the labour force has been found to be latent entrepreneurs (*ibid.*). Once they are actively trying to start up a business, they are described as *nascent entrepreneurs* (Robson 2007:865).

A *novice entrepreneur* is someone whose current firm is his or her first start-up. A novice entrepreneur can be contrasted with *serial entrepreneurs*, who can be defined as persons who "have sold or closed at least one business in which they had a minority or majority ownership stake, and currently have a minority or majority ownership stake in a single independent business" (Ucbasaran *et al.* 2006:5). More generally they are studied under the broader heading of *habitual entrepreneurs*, which also includes *portfolio entrepreneurs* (persons who own and operate more than one firm at the same time).

### Outcomes definition

According to Baumol (1990:895) entrepreneurship can be *productive*, *unproductive* (e.g. rent-seeking), or even *destructive* (e.g. illegal activities). He defines entrepreneurs as "persons who are ingenious and creative in finding ways that add to their own wealth, power, and prestige" (1990:987). Henrekson (2007:719) in a similar vein proposes that "entrepreneurship can be seen as a continual quest for economic rents, i.e. rates of return exceeding the risk-adjusted market return". He describes (2007:729) the sources of 'Ricardian' rents (and their short term

equivalents of ‘Marshallian’ rents) such as access to natural resources, patents, and tacit knowledge, and points out that these rents can be obtained through many different means: from innovative activities to bribes.

The outcomes definition of entrepreneurship is consistent with Shane and Venkataraman’s (2000) definition of entrepreneurship as the discovery and exploitation of opportunities. It stresses that the opportunities discovered and exploited may only be to the advantage of the entrepreneur, and not necessarily to society. It is thus a view that de-romanticises the entrepreneur. It also has implications for economic development, since – as was pointed out by Coyne and Leeson (2004:236) – underdevelopment may not be due to an insufficient supply of entrepreneurs, but due to a “lack of profit opportunities tied to activities that yield economic growth”.

### **Resonance with development economics**

All of the above definitions are useful and relevant for understanding entrepreneurship in developing economies, and in bridging the divide between entrepreneurship and development economics. Development economics originated as a sub-field within economics after World War I, and aims to explain the structural transformation of countries from rural, agricultural-based societies towards modern, manufacturing, and service based economies. It is also policy-orientated in that it aims to address the concerns of the many newly independent countries in the developing world on how to accelerate economic growth and reduce poverty. The following section shows how all three notions of entrepreneurship discussed are relevant to the aims of development economics.

#### **(1) The relevance of behavioural entrepreneurship**

There are both macro-economic and micro-economic traditions within development economics. The macro-economic tradition has studied aggregate economic outcomes such as economic growth, trade and sectoral diversification, while the micro-economic tradition has studied the dynamics of households and firms in developing countries. In both of these the behavioural view of the entrepreneur who discovers opportunities and exploits them is relevant.

Fundamentally, macro-economic growth depends on factor (capital and labour) accumulation and productivity. This in turn requires investments to be made: investment in physical capital, investment in human capital (education), and investment in technological progress (innovation). The nature of the macro-economic environment, including macro-economic policies, will determine whether there are ‘opportunities’ to be discovered and whether entrepreneurs will have the means to exploit any opportunities. This is due to the effect of such policies on uncertainty and risk. Developing country contexts are often said to be characterised by high risk and uncertainty due to policy incredibility, economic instability, and lack of insurance mechanisms. These increase the entrepreneurs’ risk of failure – which not only has implications for the type and amount of investment that will take place, but may even affect the nature of firm formation

in these countries. For example, development economics often remark on the predominance of small firms in developing countries, and have pointed to the absence of significant numbers of large indigenous firms in many of the poorest countries (Naudé and Krugell 2002). Small firm size has been postulated to be a symptom of economy-wide uncertainty, where the probability of success is small. Wiggins (1995) shows that under such conditions large firms face greater costs to provide sufficient incentives to retain committed workers: they may be successful, but they cannot commit to high wages beforehand as this would imply a large cost if they fail. In contrast, a small firm can allow the entrepreneur to earn potentially large returns if the firm is successful, while if the firm is unsuccessful no large commitments (costs) are incurred.

On a micro-economic level development economics have studied household and firm behaviour in developing countries. The approach has been that households and firms are utility and profit maximising units facing budget and production constraints. Generally, there is no individual entrepreneur, although in the context of developing countries many household members are self-employed, often in the informal sector. In studying the household in developing countries development economists expanded the theoretical notion of the household, which in economics was traditionally treated as a single unit. In agricultural household models for instance, they modelled the fact that production takes place within the household and that households produce not only for external markets but for themselves. Also, in studying farming decisions by agricultural households development economists emphasised the risk-averse nature of such households, which had important implications for their willingness to diversify their crops and exploit possible profitable opportunities. Also, in moving away from the unitary household model, development economists have opened up avenues for research into women's occupational choice, including entrepreneurship.

In studying the micro-economics of firm-level behaviour, development economists have perhaps best learned from the entrepreneurship literature, although here the situation is not completely satisfactory. Thus, most often the focus had been on the investment, export, and labour market decisions of firms, with no clear role for the individual entrepreneur as the link between macro-level and firm-level outcomes. Thus, development economists can for example still say relatively little about how entrepreneurial capabilities and entrepreneurial orientation affect firm performance in developing countries, and how these are shaped by uncertainty and risk aversion. Unlike in the case of agricultural households there has been no extensions to the theory of the firm in development economics.

## **(2) The relevance of occupational entrepreneurship**

Perhaps the most important formal approach in modern economic theory towards entrepreneurship has been to model it as an occupational choice between self-employment and wage-employment. Important contributions in this regard were made by amongst others Lucas (1978), Evans and Jovanovic (1989), and Murphy

*et al.* (1991). The basic result is that a person will become an entrepreneur if profits and the non-pecuniary benefits from self-employment exceed wage income plus additional benefits from being in wage employment.

Entrepreneurial ability is a core element of occupational choice models (e.g. Lucas 1978; Evans and Jovanovic 1989). Baptista *et al.* (2007) consider entrepreneurial ability to consist of human capital, social capital, and cognition. In Kihlstrom and Laffont (1979) entrepreneurial ability includes being less risk-averse and open to uncertainty. In the management literature the focus has been on the 'entrepreneurial ability' of firms, with various measures having been proposed in order to measure how 'entrepreneurial' firms are. Mezzour and Autio (2007), for instance, discuss the concepts of 'entrepreneurial orientation' and 'entrepreneurial management' according to which the entrepreneurial ability of a firm can be captured by its opportunity orientation, resource orientation, management flexibility, reward philosophy, growth ambitions, and entrepreneurial culture. Entrepreneurial ability not only determines the occupation choice that an individual will make, but also determines the success of a firm, including its eventual size (Fonseca *et al.* 2007:649).

Higher relative expected wages can be expected to lower the probability of an individual opting for self-employment. However, empirical research has noted a 'paradox' in that individuals often appear to make the occupational choice in favour of self-employment when the monetary returns are less than they would have obtained if they had remained in or chosen wage employment (Hamilton 2000). Moskowitz and Vissing-Jorgensen (2002) offer a number of explanations, namely that these individuals have a high tolerance for risk, that they may misperceive risk, and are overly optimistic (see also Arabsheibani *et al.* 2000), or that there are large non-pecuniary benefits to being an entrepreneur. More research is needed into the non-pecuniary gains to self-employment in developing countries, and one may expect significant gains in economies with authoritarian/repressive regimes.

An important and perhaps surprising result at first glance from the occupational choice literature is that education and experience has a theoretically ambiguous effect on entrepreneurial activity, as it can influence entrepreneurial ability, access to credit as well as the ability to earn high wages (Åstebro and Bernhardt 2005; Giannetti and Simonov 2004; Stam *et al.* 2007b). Evidence that these effects are also relevant in developing countries comes from Nafziger and Terrell (1996) for India and Goedhuys and Sleuwaegen (2000) for Côte d'Ivoire.

Start-up costs also influence the occupational choice. They include a fixed cost/sunk cost element, such as planning and preparation, and the regulations that need to be adhered to in terms of labour and production and organisation standards (Fonseca *et al.* 2001). Entry costs and regulations – especially labour market regulations – tend to lower the start-up rate of new firms (e.g. Fonseca *et al.* 2001; Klapper *et al.* 2006).

In order to overcome start-up costs and investment sunk costs when starting up a new firm, entrepreneurs generally require access to capital. Following

Stiglitz and Weiss (1981) it has been realised that capital markets could provide inadequate finance to entrepreneurs due to moral hazard and limited liability problems (Paulson *et al.* 2006:102). The observation that entrepreneurs are wealthier than wage-earners (e.g. Cagetti and De Nardi 2005a; 2005b) has been taken as evidence of such capital constraints. Wealthier individuals are not only more likely to start-up new firms as wealth allows them to overcome start-up costs, but as argued by Newman (2007) wealthier individuals need to assume more risk, so as to earn more income, to achieve similar utility from income as less wealthy persons.

### **(3) The relevance of entrepreneurial outcome definitions**

Given entrepreneurs' behavioural responses to risk and uncertainty, sound government policy is seen as crucial in reducing or increasing uncertainty, through for instance monetary, fiscal and trade policies. Policy though, is only a proximate cause for risk and uncertainty, and in recent years development economists have turned to unpack the concept of 'institutions' as the ultimate determinant of development. Thus institutions, defined broadly as the 'rules of the game' are seen to include property rights, contract enforcement, and good governance. These institutions are seen as conducive to good policies, which in turn will facilitate accumulation of capital and labour (for overviews see Chang 2007 and for a discussion in the African context, Naudé 2004).

Given the discussion on productive, unproductive, and destructive entrepreneurship above, institutions' effect on development outcomes will be through the allocation of entrepreneurship. This is because the nature and quality of institutions in a country determine the type of opportunities which entrepreneurs can discover and exploit. With poor institutions, transaction costs in the economy will be high (for instance informal networks might need to substitute for contract enforcement) and there may be less productive entrepreneurs and more evasive entrepreneurs (avoiding predatory governments) and even more unproductive and destructive entrepreneurs (they might find it more lucrative to become politicians or to bribe politicians to share in rents, than add new value). With less productive entrepreneurs there may be less demand for labour and more self-employed 'necessity' entrepreneurs – creating a vicious cycle.

Seen in this way 'entrepreneurship' is not necessarily intrinsically good or bad, but depends for its effects on the structure of incentives that a particular time and society offers. These structures and incentives can result in either a 'rent economy' or a 'productive economy' (Stiglitz 2006:7). In a rent economy the distribution of resources is often a zero-sum game which leads to conflict. According to Stiglitz (2006:7) it is precisely because Africa has so many of its countries as rent economies (being dependent on natural resource exports) that conflicts are so frequent. Given this understanding of entrepreneurship, the policy implication is that efforts to increase the supply of entrepreneurship itself

may be less important than efforts to change the allocation of entrepreneurial effort into productive entrepreneurship (Baumol 1990:895).

To conclude this section, it is clear that there is considerable overlap between the fields of development economics and entrepreneurship, just from an analysis of the concepts and definitions of entrepreneurship and the broad concerns of development economics. To the degree therefore that developing countries' context and institutions influence the behaviours, occupation patterns, and outcome effects of entrepreneurs, we should expect the extent and nature of entrepreneurship to differ widely across the world. The next section investigates these differences and also identifies similarities and broad stylised facts.

### 4.3 Comparative profile of entrepreneurship across the world

This section provides an overview of the differences and similarities between entrepreneurship between developing (or emerging) and advanced economies. As was mentioned in the introduction, progress in the collection of comparable, cross-country datasets on entrepreneurship is facilitating our understanding of the relationship between entrepreneurship and the economic development. This section will therefore also show some of the empirical regularities (or 'stylised facts') that have been found in this regard.

However, it needs to be pointed out that despite progress in the collection of comparable cross-country data on entrepreneurship, there are still many weaknesses in available data. A full discussion of these weaknesses falls outside the scope of this chapter. However, one weakness that should be mentioned is that current data of entrepreneurship is largely based on measurements of entrepreneurship according to the occupational definition, and is biased towards measuring business (firm) activity of formal (as opposed to informal) firms. Thus, the three most important global databases on entrepreneurial activity in countries all take an occupational/formal-firm view of entrepreneurship: the International Labour Organisation (ILO) measures self-employment, the Global Entrepreneurship Monitor (GEM) measures start-up rates of new firms, and the World Bank measures the registration of new firms.

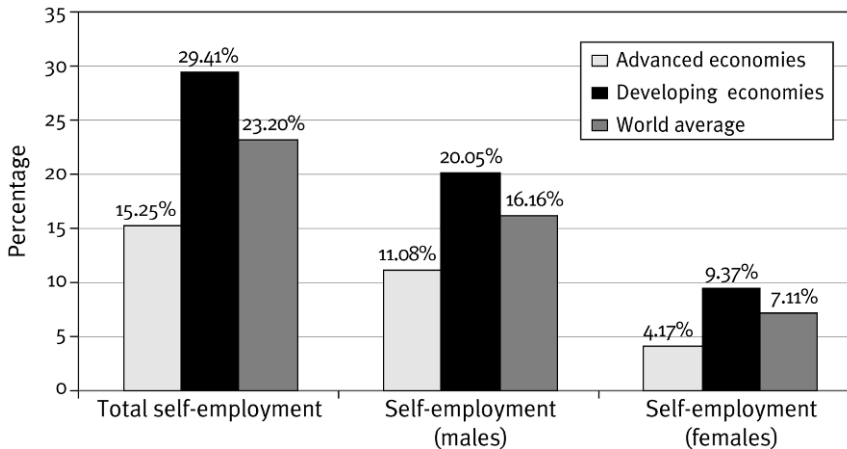
In what follows we will make a distinction between developing and advanced economies. This distinction is based on the widely used World Bank classification of countries into low, middle, and high-income countries based on their per capita Gross Domestic Product (GDP). The World Bank classifies low-income countries as countries with per capita income of less than US\$905, lower middle-income countries with per capita income of between \$906 and \$3,595, upper middle-income countries with per capita incomes between \$3,596 and \$11,115, and high-income countries those with per capita income extending US\$11,116. Low-income and middle-income countries are regularly described as 'developing countries'. Thus, we group low- and middle- income countries into the group

called ‘developing economies’, and high-income countries into the group of ‘advanced’ economies. We will start by describing simple measures of self-employment across countries as reflected in the ILO data, and then discuss the more nuanced picture from the GEM. We will conclude this section by relating entrepreneurship to the level of development.

### Entrepreneurship as self-employment

The ILO makes data available on self-employment for 76 countries over the period 1997 to 2006 as part of their data on ‘status in employment’ (see <http://laborsta.ilo.org>). They distinguish between total self-employment, own-account workers, and employers (who are self-employed persons employing others) and also make a distinction between male and female. One may make the assumption that those self-employed persons who employ others are perhaps opportunity-driven entrepreneurs, while those who are only working for their own account may be necessity or ‘survivalist’ entrepreneurs. Even if this assumption does not hold, it is useful to make this distinction as policy makers are particularly interested in stimulating the type of self-employment, which creates further employment.

Figure 4.1 shows the average self-employment rates for advanced and developing economies over the period 1997 to 2006. For the 76 countries of the world for which the ILO provides data, the average percentage of the labour force in self-employment over the period was 23.2%. Of this percentage, the great majority (16%) was male, with about 7% of the self-employed across the world being female.

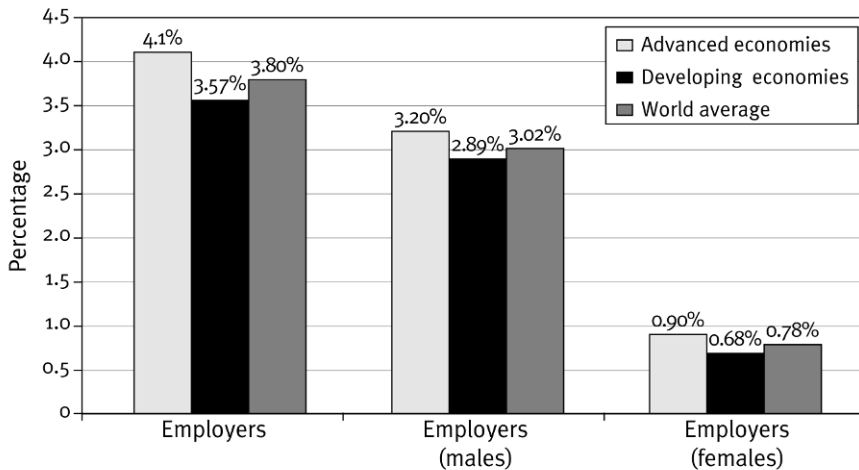


**FIGURE 4.1:** Average total self-employment rates in advanced and developing economies: 1997-2006

*Source: Author's calculations based on ILO ICSE data*

What is also apparent from Figure 4.1 is that self-employment rates are much higher in developing economies than in advanced economies, almost twice as high with 29% of the labour force in the average developing economy being in self-employment as compared to only 15% in an advanced economy. This difference also holds for males and females, although as Figure 4.1 suggests, proportionally more females in developing economies may be in self-employment.

Figure 4.2 below shows only the proportion of the self-employed in the sample of countries who indicated that they were employers. This shows a very different picture from Figure 4.1. Now, the proportion of the self-employed who are employers, are higher in advanced economies than in developing economies. With 4.1% of the self-employed in advanced economies providing employment to others compared to only 3.6% in developing economies, the implication is that while only 11% of labour market participants in advanced economies are own account workers, more than 25% in developing economies are working on their own. This is consistent with observations that developing countries tend to have much larger informal sectors characterised by ‘necessity’ and ‘survivalist’ entrepreneurs. It is also striking from Figure 4.2 that women are much less likely than men to be employment-creating entrepreneurs when self-employed. Less than 1% of women in the ILO’s sample fell in this category. This is consistent with most other empirical evidence from surveys which finds that men are more likely to be entrepreneurs. It may also reflect the fact which has also been corroborated by research, that women face more significant barriers in starting and growing a firm (for an overview of women in entrepreneurship see Minniti 2008 and Minniti and Nardone 2007).



**FIGURE 4.2:** Average percentage of self-employed who are employing others in advanced and developing economies, 1997-2006

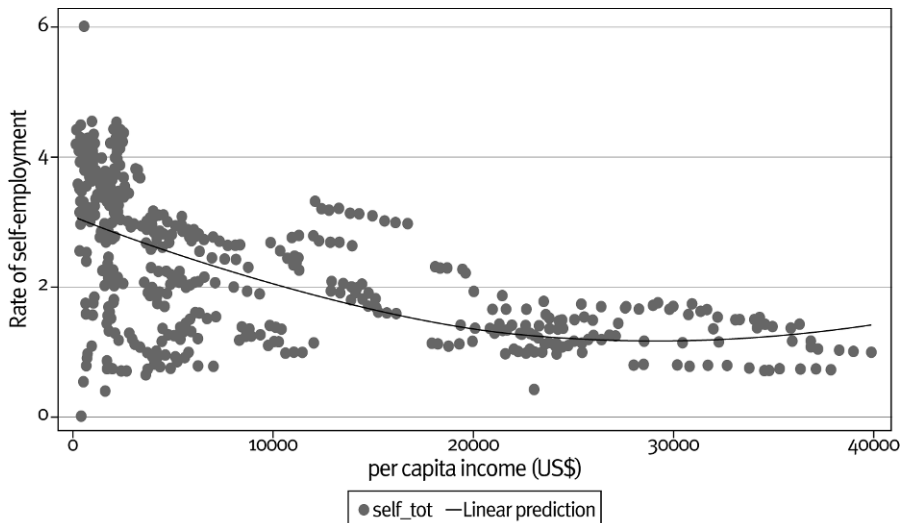
*Source: Author's calculations based on ILO ICSE data*



If we take self-employment as a measure of entrepreneurship, we can thus conclude from the brief overview of ILO data that entrepreneurship can contribute towards poverty alleviation where employment opportunities in the formal sector are restricted – although large numbers of single, own-account workers do not add as much to value added as when they do employ others, which seems to be more the case in more advanced economies. From this one expects that as a country develops, and creates more and better employment in the formal sector, the overall proportion of self-employment in an economy would decline.

To investigate this further, Figure 4.3 shows the relationship between per capita GDP and total self-employment. Figure 4.3 also contains the fitted regression line from a regression of self-employment rates on GDP per capita and GDP per capita squared (to account for nonlinearity in the relationship). These two variables alone explain 35% of the variance in self-employment rates of 76 countries over a ten-year period. It is clear from the figure that at low levels of per capita GDP self-employment rates tend to be much higher than at higher per capita GDP levels. The figure indicates that at per capita GDP levels of less than US \$ 20,000, the relationship is strongly negative. After US \$ 20,000 rates of self-employment remain more stable below 20%.

The decline in self-employment evident in Figure 4.3 should not be taken to mean that entrepreneurship becomes less important, but that the nature (quality) of entrepreneurship improves. The next section explores whether a similar relationship exists between rates of new business formation (start-ups) and levels of per capita income.



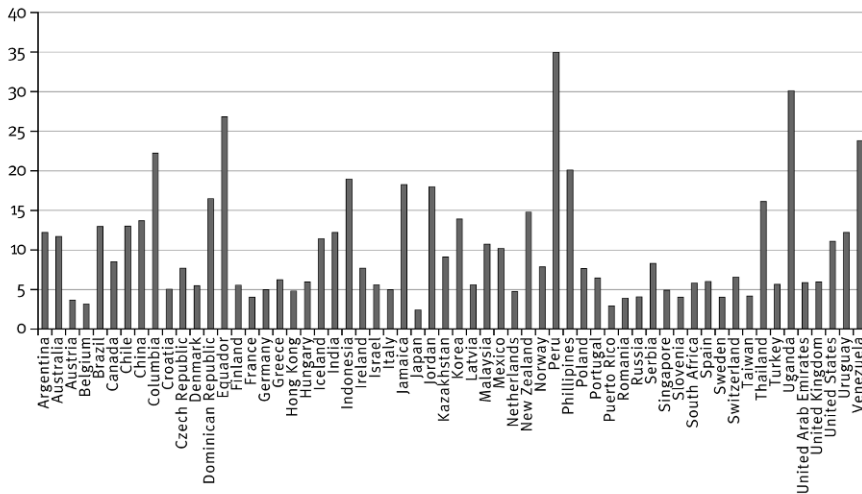
**FIGURE 4.3:** The relationship between self-employment and per capita income  
*Source: Author's calculations based on ILO ICSE data*

### Entrepreneurship as new business formation

The Global Entrepreneurship Monitor (GEM) collects data on about 42 countries in order to measure existing business ownership rates as well as early-stage entrepreneurial activity. The latter, also termed ‘total entrepreneurial activity’ (TEA) is measured as the combination of nascent entrepreneurs and new business owners. According to the GEM 2006 Global Report (see [www.gemconsortium.org/](http://www.gemconsortium.org/)) nascent entrepreneurs are persons who have “taken some action towards creating a new business in the past year, wherein they will own a share, and the business must not have paid any wages or salaries for more than three months”. New businesses are defined by GEM as those that have “paid wages or salaries for more than three months, but less than 42 months”.

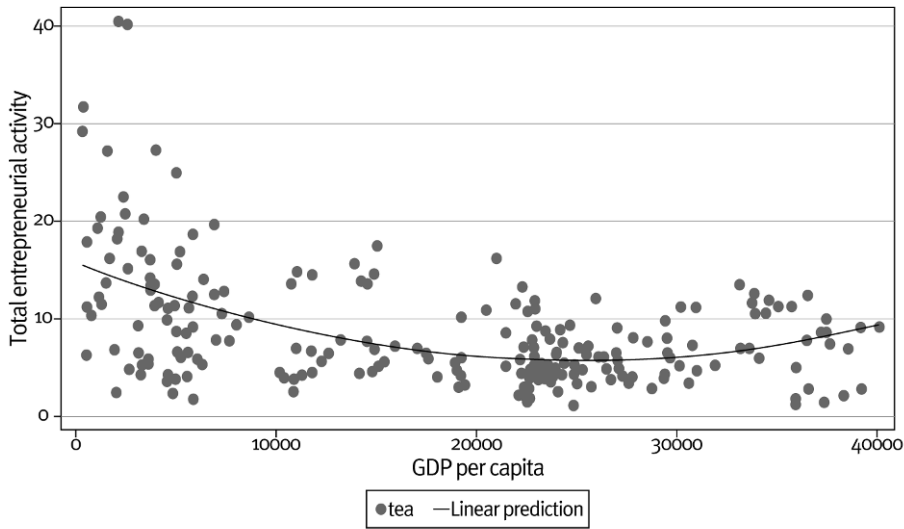
Rates of TEA differ significantly across the world. Figure 4.4 below depicts the average annual TEA rates across the GEM sample countries over the period 2000 to 2007. It can be seen that in some countries, such as Peru, early-stage entrepreneurial activity is very high, at 35%, and in some very low, such as only 2.7% in Japan. When splitting the sample of countries into advanced economies and developing economies, the difference is stark: in advanced economies the TEA rate is on average 6.6% per annum, while it is 14.2% in developing countries. This indicates, as the ILO self-employment data did, that there is more entrepreneurship in developing countries if one takes the occupation view of entrepreneurship.

Given the stark differences in the quantity of early-stage entrepreneurship in advanced and developing economies, Figure 4.4 plots the GEM’s TEA against per capita GDP.



**FIGURE 4.4:** Total entrepreneurial activity across the world, 2000-2007

Source: Author’s calculations based on GEM data



**FIGURE 4.5:** The relationship between early-stage entrepreneurial activity and level of economic development

*Source: Author's calculations based on GEM data*

Figure 4.5 shows that there exists a U-shape relationship between entrepreneurship and economic development roughly similar to the relationship between self-employment and economic development. How can this relationship be reconciled with the role of entrepreneurship in structural economic transformation and growth?

At low levels of development (low per capita income) self-employment is high due to lack of sufficient wage-employment (Acs 2006). This is the situation that will typically prevail in the traditional society where production would also take place within the household (mainly in agriculture) and be aimed at subsistence. It will also prevail where larger firms are mainly absent (due to lack of economies of scale), and property rights cannot be strongly enforced. In this situation there will be many individuals with high entrepreneurial ability, but there will not be many profitable opportunities to exploit that would result in economic growth. However, over time population growth and technological advances in agriculture and transport would result in growing (urban) agglomerations of people, which will in turn result in larger markets, where economies of scale can be reaped and where innovation, creativity, and learning can take place (see also Goodfriend and McDermott 1995) – hence cities have been described as ‘nurseries’ of firms (Duranton and Puga 2001). Entrepreneurs will identify greater opportunities in this context, which will result in growing investment and re-allocation of production factors from the traditional, subsistence sector, to the modern sector, and economic growth will start as depicted in the dual economy models. With

entrepreneurs creating new and growing firms and as wages start to rise in the more productive modern sector, the opportunity costs for self-employment will rise and the ratio of self-employed to wage-employed will decline. This corresponds to the downward sloping part of the U-shaped curve in Figure 4.5.

According to Wennekers *et al.* (2005:295) “from a certain level of economic development onwards, the employment share of manufacturing starts declining, while that of the services sector keeps increasing with per capita income, providing more opportunities for business ownership”. This level of development corresponds with the transition from a capital-driven stage of growth to a knowledge-driven stage of growth. It is also accompanied by development of the institutional foundation for entrepreneurship, in particular protection of property (especially intellectual property). Growth in the service sector together with the adoption of new technologies that lessen the need for economies of scale, open up many new opportunities that can be utilised by small firms. This leads to a rise in self-employment, corresponding to the upward-sloping portion of the U-shaped curve in Figure 4.5. These types of firms are often ‘high-potential’ firms, implying that self-employment may have a more significant impact on economic growth at higher levels of development (Van Stel *et al.* 2005; Wong *et al.* 2005:345).

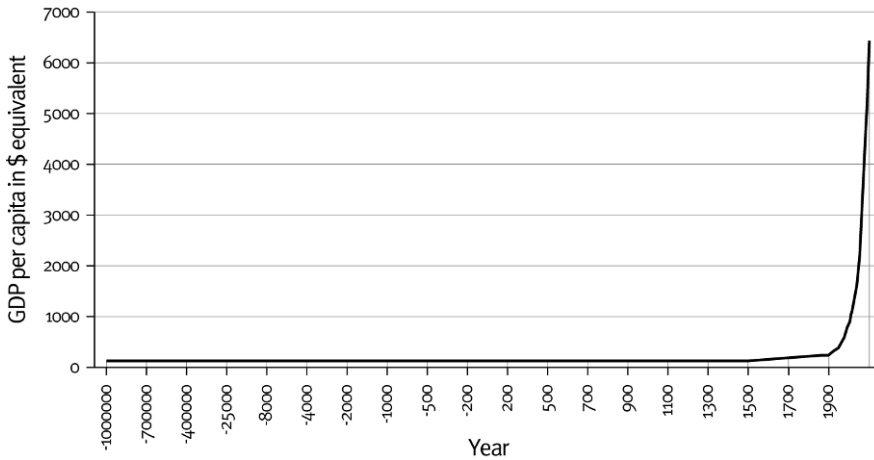
## 4.4 Theoretical considerations on economic development and entrepreneurship

Having set out the broad ‘stylised facts’ on the relationship between entrepreneurship and economic development (as imperfectly measured by GDP per capita), this section provides some theoretical considerations on the causal linkages between entrepreneurship and economic development. Therefore we will first discuss the positive role of entrepreneurship in advancing economic development, as well as the role of economic development in advancing entrepreneurship. The focus here is on theoretical thinking linking entrepreneurship to structural economic change and growth acceleration. Thereafter we explore ways in which entrepreneurship may undermine economic development.

### Structural economic transformation, innovation-driven growth, and entrepreneurship

High economic growth and rising per capita income are relatively recent phenomena in human evolutionary history. Figure 4.6 shows that for most of human history, per capita incomes stagnated, with significant change only occurring during the nineteenth and twentieth centuries.

Human society has, on the whole, lived in a traditional, subsistence state. Hansen and Prescott (2002) distinguish between the pre-industrial era (termed ‘Malthusian’) and the post-industrial era (called the ‘Solow’, or ‘era of modern growth’). They argue that the transition from the Malthusian (subsistence) era



**FIGURE 4.6:** GDP per capita estimates from 1 million B.C. to 2000

Source: J. Bradford DeLong at [http://www.j-bradford-delong.net/TCEH/1998\\_Draft/World\\_GDP/Estimating\\_World\\_GDP.html](http://www.j-bradford-delong.net/TCEH/1998_Draft/World_GDP/Estimating_World_GDP.html)

to the Solow era is characterised by a change in technology based on land, to a technology based on physical and human capital accumulation. The adoption of new technology first and foremost required specialisation, which in turn required a sufficiently large market (Goodfriend and McDermott 1995:117). Once population growth and urbanisation offered larger markets, as well as the conditions for reaping economies of scale, and people started investing in the quality of their offspring rather than the quantity (Galor and Moav 2001; 2002), economic growth took off. This process has recently been formalised in “unified growth models that are consistent with an epoch of Malthusian stagnation and the transition from Malthusian stagnation to sustained growth” (Galor and Moav 2001:720). Once this take-off started, economic development entailed a transformation from the traditional sector, to the modern sector, as is formalised in dual economy models following Lewis (1954). Understanding the role of the entrepreneur in economic development and growth therefore entails an understanding of the role that the entrepreneur played in the Malthusian era, in the transition from Malthusian stagnation to growth, in transforming the economy structurally from a traditional agricultural-based economy to a modern industrial economy, and finally in sustaining growth based on innovation (knowledge capital).

It can be argued that during the Malthusian era the problem was one of low levels of entrepreneurial ability and fewer opportunities whose exploitation would have resulted in economic growth. Over time however, growing population density – as a result of growing urbanisation – and basic technological progress in agriculture and transport, created large enough agglomerations where

opportunities started to arise. Specialisation created learning and innovation and made the adoption and the spread of new technology much faster (Goodfriend and McDermott 1995:117). Another benefit included incentives for investing in entrepreneurial capital (e.g. through serial start-ups). It also provided incentives for investment in human capital, which facilitated the switch in a parental (household) strategy of quality rather than quantity of offspring (described in Galor and Moav 2002).

There are two ways in which this switch would have made possible a significant increase in entrepreneurial ability and effectiveness during this transformation (Cagetti and De Nardi 2005a:21). First, parents transfer human capital, in particular tacit knowledge, to their children. For entrepreneurship this may be an important source of entrepreneurial ability, as it is often found that children of entrepreneurs are more likely to become entrepreneurs themselves (Davidsson and Honig 2005; Stam *et al.* 2007a). Second, parents transfer capital to their children (e.g. through inheritance), which provides them with the capital base needed to support their entrepreneurial ventures.

The 'take-off' from Malthusian stagnation to growth as depicted in unified growth models, can be argued to correspond to the start of modern sector growth in dual economy models in development economics. These dual economy models aim to explain the structural transformation of underdeveloped economies, and are inspired by Lewis (1954).

Recently Gries and Naudé (2008a) extended the Lewis model to explicitly incorporate the entrepreneur. Their model is an example of a number of recent models that attempt to bridge the scholarly disconnection between entrepreneurship and development economics. They follow the Lewis-model distinction between a traditional and modern sector, and underpin this with micro-foundations (optimising households, firms, and labour market matching). They also distinguish between mature and start-up entrepreneurs, between large firms and small firms, and between necessity and opportunity-driven entrepreneurship. In their model, the transformation from a low-income, traditional economy to a modern economy involves significant changes to production methods, a process of change where entrepreneurs provide five essential roles. First, entrepreneurs create new firms outside of the household – which is for various reasons a source of value. Second, they absorb surplus labour from the traditional sector. Third, they provide innovative intermediate inputs to final-goods producing firms. Fourth, they permit greater specialisation in manufacturing. And fifth, they raise productivity and employment in both the modern and traditional sectors.

Unlimited supplies of labour will of course not provide surpluses (profits) indefinitely, and as the stock of capital increases as a result of investment by entrepreneurs, its marginal product could start to decline. Thus, other sources of productivity growth are required to sustain and accelerate economic growth in the modern sector once the structural transformation has crossed a particular threshold. Peretto (1999) provides a modified endogenous growth model that implies that long-run structural transformation depends on the

degree to which an economy can make a transition from a growth path driven by capital accumulation ('the Solow economy' as happens during the period of labour surplus when capitalists invest their surplus profits in the Lewis model) to a growth path driven by knowledge accumulation (the endogenous growth or 'innovation-driven' economy). Knowledge accumulation (including technological innovation) is recognised to be easier in certain activities (such as in manufacturing and services) and contexts – such as in urban agglomerations.

Three interrelated sources of productivity growth that determine how an economy makes the transition from capital-accumulation to knowledge are the allocation of talent (e.g. Murphy *et al.* 1991), the accumulation of human capital (e.g. Peretto 1999), and technological progress (Ciccone and Matsuyama 1996).

Murphy *et al.* (1991) emphasise 'entrepreneurial talent' (ability) and show that firm size and the growth of the economy is determined by entrepreneurial ability. They suggest it is important that most talent become entrepreneurs (1991:510). Nelson and Pack (1999) use a dual economy model to explain the structural transformation of economies such as Korea and Taiwan from being characterised by a 'craft' sector to a 'modern' economy. They assign a key role to the 'effectiveness of entrepreneurial ability which they see as a vital determinant of the rate of assimilation of technology (1999:420). They stress the imitative role of entrepreneurship as well as its role in taking on uncertainty, given that the adoption of (mostly) foreign technology by entrepreneurs in these countries entails significant risk-taking (1999:418). As in Rada (2007), entrepreneurs 'trigger' an investment in the modern sector once they have perceived profitable opportunities (the 'take-off' from Malthusian stagnation), and facilitate the re-allocation of production factors from the traditional to the modern sector. Since the modern sector requires a higher level of skilled labour, entrepreneurs cause an increase in the demand for educated labour. This leads to an overall improvement in human capital in a country, in turn facilitating the imitation and adoption of foreign technology. Their model implies that a 'rapid' expansion of skilled labour can only be absorbed if entrepreneurial ability is high, and that without entrepreneurial ability the returns to physical and human capital are low (Nelson and Pack 1999:423).

Knowledge accumulation requires high levels of innovation, which results in more complex production methods, the increasing production of specialised intermediate inputs, and an increase in the technological intensity of a country's economic structure (Ciccone and Matsuyama 1996:33). Thus, the transformation from a low-income, traditional economy to a modern economy also involves significant changes to production methods, a process of change where entrepreneurs provide essential roles: first, in creating new firms outside of the household, which offer new products; and second, in growing firms (and wage employment) by making use of scale economies. Such larger firms tend to specialise, and the clustering of specialised firms can give rise to localisation economies, further encouraging innovation and specialisation.

During the stage where growth and productivity are driven by knowledge accumulation, countries must generate, as well as commercialise, new knowledge. This requires, amongst others, cooperation between researchers and entrepreneurs. Researchers, who 'produce inventions' and entrepreneurs, who 'implement them', need to be matched: if not, the returns to innovation will be lower, and innovation effort will decline, with adverse consequences for productivity growth and competitiveness (Michelacci 2003:207). One way of improving this cooperation or matching is through linkages between universities (researchers), private firms (entrepreneurs), and government (subsiding research and development – R&D) (Wennekers *et al.* 2005:295).

Although many developing country governments are spending substantial amounts on innovation and R&D subsidies, and in establishing university-private sector cooperation through for instance establishment of science parks, little research has studied these attempts. Generally, the suggestions from the literature are that poor countries should not be focusing their attention on R&D/new knowledge generation, but rather in imitation and technological catching-up (see e.g. Estrin *et al.* 2006:697).

Schmitz (1989) stressed the importance of imitation by entrepreneurs and argued that it may be more important for the majority of developing countries than new knowledge generation. He presents a model in which entrepreneurs imitate and implement existing technology, and learn-by-imitation. A simplifying assumption in his model is that technology is easily observable and commonly available. This is not always the case. In fact, according to Nelson and Pack (1999), there is great uncertainty in the adoption of foreign technology, and a measure of the ability of entrepreneurs is how well they shoulder this risk. Furthermore, not all imitation is costless: Holmes and Schmitz (1990) point to many new innovations, such as locating or managing a firm, that are costly to imitate.

The process of change involving the composition of goods produced in an economy has interesting implications for the development of entrepreneurship itself, so that entrepreneurship may be itself endogenous in the development process. Ciccone and Matsuyama (1996) explain this in a model where they make a distinction between consumer goods and intermediate goods. If a particular economy produces a limited range of intermediate goods, they show that the final (consumer) goods sector will use 'primitive' production methods and will have little demand for sophisticated, new inputs. This will lead to lower incentives for potential entrepreneurs to start up new firms (1996:34). The economy can get stuck in such an underdevelopment trap with primitive production in its (small) modern sector. They also point out that there might, in such an 'underdevelopment trap' be a case for assistance to new start-ups since these can provide both pecuniary and technological externalities if they start producing new intermediate goods – which will induce final good producers to demand more of these (in turn improving the incentives for other entrepreneurs to start up firms due to greater demand and the example provided in the application of



new technology). In this model, start-ups face positive start-up costs that include R&D activities in bringing a new good to the market.

That entrepreneurs create a positive externality through bringing new goods to the market and in the process illustrate how new technology can be applied, has been extended by Hausmann and Rodrik (2003) who point out that entrepreneurs provide not only these technological externalities in bringing new goods to market, but further pecuniary externalities by providing information on the profitability of new activities. In this sense entrepreneurs fulfil a 'cost-discovery' function in making sunk costs in a new activity which *ex ante* may or may not be profitable, but which will provide information *ex post* on such profitability to other entrepreneurs. In so doing, entrepreneurs provide information on what an economy can be good at producing, which in the context of developing countries is information that may be fundamentally lacking and thus subject to uncertainty (Hausmann and Rodrik 2003).

Finally, an aspect of duality that is receiving increasing attention is that between the formal and informal sector. Zenou (2007) presents a dual economy model where the duality is not in a traditional/modern sector as such, but in the labour market. This mirrors the reality in many developing countries where the labour market is fragmented into an informal and a formal sector (Maloney 2004). The informal sector mostly consists of self-employed (entrepreneurs) persons, and as pointed out by Zenou (2007:1) this is substantial in many developing countries, for instance accounting for between 20 to 80% of non-agricultural employment in Africa. The formal sector consists largely of wage-employment, and is characterised by high unemployment rates. High unemployment and vacancies co-exist in the formal sector due to job-search frictions, which do not exist in the informal sector where job-seekers can create their own firms, or enter into employment with informal family-owned firms. De Paula and Scheinkman (2007) find that informal firms are often a form of 'evasive' entrepreneurship in order to evade taxes or regulations, or to engage in illegal trade. They also find that they are less efficient, less able to obtain finance, and more likely to be dominated by entrepreneurs of low ability, as measured by educational attainment (De Paula and Scheinkman 2007:4). Thus to a large degree, the informal sector appears much like the traditional/subsistence sector in typical dual economy models, which suggests a path to faster growth by allowing entrepreneurs of high ability to 'migrate' to the formal sector.

### **Undermining economic development**

There are various ways in which entrepreneurship is identified to undermine economic development, thus not all types of entrepreneurship are good for economic development. As a consequence there has even been an argument for a tax on entrepreneurship. The most salient adverse effects of entrepreneurship can be due to either: (a) perverse allocation towards activities that are personally profitable but socially destructive or unproductive; and (b) low quality entrepreneurship that may have negative externalities.

### (1) Perverse allocation of entrepreneurial talent

We have noted a view of entrepreneurship that sees entrepreneurship as ubiquitous in society, but with different impacts on economic development, which will depend on whether entrepreneurial ability is allocated towards productive, or non-productive, destructive, or evasive ends. The latter, perverse allocation – the ‘misallocation’ of entrepreneurial ability may hinder economic development (Acemoglu 1995; Mehlum *et al.* 2003).

It is not only the absence of good institutions that may result in the inappropriate allocation of entrepreneurial ability. Slow economic growth in itself may cause the wrong allocation of ability and entrepreneurship. For instance, it is well known that when economic growth is low and employment opportunities in the formal sector are scarce, that self-employment will rise, and that this rise will include a large proportion of people with low levels of entrepreneurial ability. However, during periods of low economic growth the incentives for innovation, as in bringing new goods to market, will be low, since the demand for new goods tends to have an income elasticity of greater than one. Entrepreneurs of high ability will therefore engage in rent-seeking activities rather than productive entrepreneurship, and this re-allocation of entrepreneurial talent will be greater in countries with higher levels of wealth or natural resources from which rents may be extracted (Murphy *et al.* 1991:520). Thus, in such circumstances the quality of the entrepreneurial pool in a country worsens from both the inflow of low-ability entrepreneurs as well as the outflow of high-ability entrepreneurs. This will lead to further restrictions from the side of credit markets, in the form of higher interest and/or collateral requirements – which may further push out talented entrepreneurs. The consequence is that poor countries may be caught in a self-reinforcing ‘entrepreneurial’ development trap.

Mehlum *et al.* (2003:276) present a model to show how a poor country can become trapped in low development as a result of the misallocation of entrepreneurial talent towards what they term ‘predation’. In their model, an entrepreneur must make a choice between becoming a ‘predator’ or ‘prey’ (i.e. a producer). Predator activities include theft, extortion, bribery, and fraud. Economic growth and development itself will influence this choice: they state that “at a low level of development, predation is more attractive than at higher levels”. This is because of insecure property rights. Economic growth and the inflow of new entrepreneurs is, in their model, an escape from this trap, as economic growth increases the incentives/profits from productive activities, as well as increasing the ability of government to improve law enforcement. Such a new inflow of entrepreneurs has been argued to undermine vested interests and even ‘crowd-out’ rents by providing new and substitute opportunities (Baland and Francois 2000:528). This is however also an important reason why new entrepreneurial ventures are often repressed in many poor countries.

Finally, Naudé (2007) discusses the role of entrepreneurs during and after conflict, and points out that the activities of entrepreneurs during conflict, especially of ‘destructive’ entrepreneurs who benefit from the conflict, may make

post-conflict transition difficult to achieve. He argues that at least six dimensions need to be taken into consideration in addressing the role of entrepreneurs in post-conflict situations, namely: the context of the war; the relationship between institutions and entrepreneurship; the role played by ethnic/immigrant (minority) entrepreneurs and entrepreneurs in diaspora; the scope of the market; human and financial capital requirements; and appropriate forms of government support.

## (2) Low quality entrepreneurs

A central theme in the economic literature on entrepreneurship is that entrepreneurial ability matters. This ability is however difficult to observe *ex ante* and as such measures to facilitate the entry of entrepreneurs may also encourage entrepreneurs of low ability.

De Meza and Webb (1987; extended in 1999) show that credit market imperfections may lead to 'overinvestment', and not underinvestment as in the Stiglitz and Weiss (1981) model, when ability (and profits) differs amongst entrepreneurs, and banks cannot accurately judge ability. In essence high profit (ability) entrepreneurs subsidise low profit (ability) entrepreneurs. They argue that a tax on interest rates in such a case could improve social welfare. Parker (2003) builds on De Meza and Webb and shows that their conclusions are only likely to hold under special conditions.

Ghatak *et al.* (2007:2) point out that entrepreneurial ability affects the success of a firm, which in turn matters for the probability of the entrepreneur repaying a loan. Because banks cannot observe any entrepreneur's ability *ex ante*, interest rates on start-up capital will reflect average entrepreneurial ability. If the proportion of entrepreneurs of low ability increases, it will result in higher borrowing costs, which imposes a negative externality on entrepreneurs of high ability, who will consequently borrow and invest less.

Another channel through which the entry of entrepreneurs with low ability might hinder economic development is through the impact of entrepreneurial ability on the productivity of employed workers. Entrepreneurs of low ability will have less productive workers, who will earn lower wages. By reducing wage costs, these entrepreneurs in effect lower the opportunity costs of entrepreneurship or self-employment, and facilitate the entry of more low-ability entrepreneurs (Ghatak *et al.* 2007:2).

## 4.5 Conclusion

This chapter has dealt with what can be described as the 'development economics of entrepreneurship', and has explored the role of entrepreneurship in economic development. It has shown that the multi-faceted concept of entrepreneurship is relevant for economic development, particularly in terms of the concept's behavioural, occupational, and outcomes perspectives. The 'development

economics of entrepreneurship' can from these perspectives be seen to be concerned with the relationship that exists between the discovery and exploitation of opportunities for personal power, wealth, and prestige on societal welfare.

The chapter has shown that in terms of understanding entrepreneurship as an occupation, there are many differences between developing and advanced economies. Indeed, from the recent availability of comparable cross-country data a rather robust 'stylised fact' is that the quantity and quality of entrepreneurship changes as a country's level of development (as measured for instance by per capita GDP) increases. It was argued, with reference to theoretical perspectives on the link between entrepreneurship and economic development, that there is bi-directional causality: entrepreneurship affects economic development, but economic development also affects entrepreneurship. Thus the institutional characteristics of a country such as its regulatory framework, rule of law, protection of property rights, quality of formal wage employment, educational facilities, and level of financial development are all important influences on the quantity and quality of entrepreneurship.

But not all entrepreneurship is good for economic growth and development. Much of entrepreneurship in developing economies may in fact be reflecting a lack of growth and development (survivalist and necessity entrepreneurs). Some entrepreneurial activities may be unproductive and even destructive. From this can be concluded that although necessity and survivalist entrepreneurship play a poverty alleviation function, for employment creating growth the best type of entrepreneurship is productive, 'high potential' entrepreneurship. These are entrepreneurs with high ability, for whom the likelihood of firm growth is higher. Indeed, *entrepreneurial ability* should perhaps be the central concern in the development economics of entrepreneurship. The fundamental implication is that not all persons should allocate their talent towards becoming entrepreneurs, but those with high entrepreneurial ability should become entrepreneurs – and perhaps be assisted in doing so.

The case that persons with high entrepreneurial ability be supported to make the entrepreneurial choice, and that persons with less ability be given the opportunity to choose wage employment can be based on the fact that it may have significant externalities: the private costs and benefits of entrepreneurship are likely to diverge in many instances from social costs and benefits. Thus, it has been suggested that the private benefits of entrepreneurs' 'cost discovery' or technological innovation is much less than social benefits, which reduce the incentives for entrepreneurs to provide these 'services'. Furthermore, the positive relationship between the stock of entrepreneurs and the levels and rates of human capital formation in an economy, as posited and tested for by Dias and McDermott (2006) imply that policies that can increase productive entrepreneurship can also speed up the structural transformation of an economy. These positive externalities imply that high ability entrepreneurship should be supported through some form of subsidy.

On the other hand, there may be cases where the social costs of ‘unproductive’ or ‘evasive’ entrepreneurship may be higher than the private benefits thereof, and where low ability entrepreneurs may crowd out higher ability entrepreneurs. It also implies that provision of subsidised credit/finance to start-ups may have perverse or neutral effects on economic growth, since this will lower the quality of the pool of entrepreneurs, and create an adverse selection problem that banks might try to overcome by raising required collateral (Ghatak *et al.* 2007). In such cases, some form of taxation and/or regulation of entrepreneurial entry may be called for to weed out low ability entrepreneurs. Such taxes have been argued to improve both the social and the private welfare of entrepreneurs. However, before one rushes to tax entrepreneurial entry in developing economies one should consider that self-employment is often a response to excessive regulation and an absence of strong property rights (evasive entrepreneurship) and not necessarily a reflection of low entrepreneurial ability (Kanniainen and Poutvaara 2007). Perhaps a better way to improve the quality of the pool of entrepreneurs in a developing country is through efforts that will result in higher wages. This would be good for both workers and entrepreneurs, since with higher opportunity costs, the average quality of entrepreneurship will increase, which will result in lower borrowing costs and encourage high ability entrepreneurs to start up. Wage rates could for instance be raised through an intervention that raises average productivity – such as investments by government in education, knowledge, and R&D (Ghatak *et al.* 2007).

Thus we have inevitably come to the policy conclusions. How can entrepreneurship be harnessed for economic development? The previous paragraph implied a specific role for government. From both the theoretical perspectives discussed in this chapter, and from a historical perspective (see e.g. Lazonick 2008) one must conclude that the success of entrepreneurship as a force for economic development depends crucially on human collective actions through government. Lazonick (2008) argues that the examples of the world’s advanced economies all point to the importance of a ‘developmental state’ for entrepreneurship. We will conclude in this regard by quoting Lazonick (2008: 1-2): “While entrepreneurship epitomises the opportunities for the reallocation of a society’s productive resources that open markets offer, they do so within national contexts in which the state invariably plays a fundamental developmental role. My argument, based on comparative-historical research, is that in all the advanced economies over the past century, first and foremost the United States where the ideology of ‘free market’ entrepreneurialism is most virulent, successful entrepreneurship in knowledge intensive industries has depended heavily upon a combination of (a) business allocation of resources to innovative investment strategies, and (b) government investment in the knowledge base, state sponsored protection of markets and intellectual property rights, and (often extensive and persistent) state subsidies to support these business strategies.”

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## CHAPTER 5

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# CREATING VALUE AND INNOVATION THROUGH SOCIAL ENTREPRENEURSHIP

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*Boris Urban*

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### 5.1 Introduction

The discussion of social entrepreneurship serves the broader purpose of illuminating how entrepreneurship is significant in dealing with social issues. In the international arena, due to a surge in non-profit organisations, social entrepreneurship has been on the rise in recent decades, although as an academic enquiry it is still emerging. Only recently has social entrepreneurship begun to coalesce into a distinct discipline, which is manifested through various dedicated institutions. Social ills have been identified as drivers of social entrepreneurship, and non-profit organisations are seen as a growing source of solutions to issues that currently plague society. The concept of social entrepreneurship is interrogated by comparing several definitions, and the different elements in these definitions are scrutinised – particularly the distinction between commercial and social entrepreneurship. Based on collective propositions on social entrepreneurship, the process is described as a catalyst for social change which varies according to the socioeconomic and cultural environments. Venture philanthropy is represented as a paradigm shift from the notion that voluntary sector organisations merely receive funds from charitable donors, to the notion of earned investment through a collaborative relationship. Social venture franchising is introduced and different lessons are drawn from successful social entrepreneurship practices. Like business entrepreneurs, social entrepreneurs initiate and implement innovative programmes, and even though they are differently motivated, the challenges they face during start-ups are similar to those faced by business entrepreneurs. Subsequently, the different types of competencies used by successful entrepreneurs are elaborated upon. The chapter ends by investigating the different types of challenges that social entrepreneurs face.

## 5.2 Social entrepreneurship as an emerging phenomenon

As with any change-orientated activity, social entrepreneurship (SE) has not evolved in a vacuum, but rather within a complex framework of political, economic, and social changes that occur at the global and local levels. The contribution of social entrepreneurs is increasingly celebrated, as was witnessed at the World Economic Forum's (WEF 2006) conference on Africa in Cape Town. Another highlight was Warren Buffett's \$30.7 billion donation to the Bill & Melinda Gates Foundation (Cole 2006); all of which indicates that venture philanthropy means a significant change in how people think about transferring wealth. SE has evolved into the mainstream after years of hovering around the edges of the non-profit sector; venture philanthropists, grant makers, board of directors, non-profit entrepreneurs, consultants, and academics are now interested in the field of SE (Boschee 2001; Johnson 2000; Kramer 2005; Harding 2006; CSSE 2006).

Although the social entrepreneurship concept may be considered a new phenomenon, it has a long history. SE has its origins in the eighteenth and nineteenth centuries, when philanthropic business owners had welfare concerns for employees and attempted to improve their working, educational, and cultural lives; for instance when philanthropic business owners such as Robert Owen, demonstrated a concern for the welfare of their employees by seeking to improve their lives, both in the workplace and in other respects. One of the earliest scholars who focused on the relationship between entrepreneurship and social entrepreneurship was J Schumpeter, who identified common factors between entrepreneurship and social entrepreneurship in his 1911 dissertation. According to Schumpeter social entrepreneurship emerges together with dynamic or entrepreneurial change as "a form of dynamic behaviour in one of the non-economic areas of society" (Swedberg cited in Lehtinen *et al.* 2007).

Over the last decade, a critical mass of foundations, academics, non-profit organisations, and self-identified social entrepreneurs have emerged and begun to coalesce SE into a distinct discipline (Kramer 2005; Dees 2001). Worldwide, policy makers are using the language of local capacity building as a strategy to assist impoverished communities to become self-reliant (Peredo & Chrisman 2006). Many dedicated centres for SE have also evolved; for instance the Skoll Centre for Social Entrepreneurship at Oxford University, created by Jeff Skoll. The foundation's mission is to advance systemic change to benefit communities around the world by investing in, connecting, and celebrating social entrepreneurs. This exemplifies the growing trend for academic institutions to take this phenomenon seriously (Economist 2006). Many similar institutions focus on SE, and researchers (Dees 2001; Christie & Honig 2006) suggest that time is certainly ripe for entrepreneurial approaches to social problems. SE merges the passion of a social mission with business discipline, innovation, and determination, commonly associated with the high-tech pioneers of Silicon Valley.

The following organisations focus on social entrepreneurship:

- Skoll Foundation
- Ashoka
- Community of Action Network
- Institute for Social Entrepreneurs
- Social Venture Network
- National Centre for Social Entrepreneurs
- Social Entrepreneurs Alliance for Change

### 5.3 Social entrepreneurship vs. corporate social responsibility

Social responsibility has been defined as the role that a small business has in terms of a good citizen meeting his/her ethical obligations to customers, employees, and the general community. Social responsibility is regarded as the price of freedom to operate in a free economic system, and frequently takes the form of personal contributions, volunteerism, and the contribution of services by the firm and its employees (Longenecker, Moore, Petty & Palich 2006).

Although not new in the commercial/business sector, corporate governance and corporate social responsibility (CSR) have gained unprecedented prominence in the modern corporation and are well documented in academic research and popular literature. Due to increased stakeholder activism, business can no longer focus solely on profits, but must be more responsive to societal needs. By its very nature a business needs to serve the interests of society, and in this way ethics is implied in business; businesses receive their ultimate justification not from economic objectives, but from the moral objectives they pursue (Rossouw & van Vuuren 2004).

South African companies have taken steps to benchmark their CSR practices and report standards with the socially responsible investment (SRI) index (Jackson 2006: 20). Such an instrument specifically designed for developing countries, and recently implemented at the Johannesburg Securities Exchange (JSE), measures companies' policies and corporate governance practices, and relate these to the triple-bottom-line measures. While many corporations and MBA students are interested in issues concerning social responsibility, sustainable enterprise, business ethics, or social impact management, there is less information and fewer studies on these topics relevant to new ventures and entrepreneurs, particularly in South Africa (SA) where SE remains an under-researched practice area in general. However, there is long-standing literature that points to the importance of SE as a phenomenon in social life and as a feature of CSR. Social entrepreneurs contribute to an economy by providing an alternative business model for firms to trade commercially in an environmentally and socially sustainable way, and also provide an alternative delivery system for public services such as health, education, housing, and community support (Harding 2006:10).

## 5.4 Drivers of social entrepreneurship

The central driver for SE is the social problem, and driving forces for social entrepreneurs include (Austin *et al.* 2006; Lock 2001:1):

- (1) Politically, the devolution of social functions from the national to the local level and from the public to the private;
- (2) Economically, the reduction of funding from the public purse; and
- (3) Socially, the increasing complexity and magnitude of problems.

Moreover, the non-profits are also seen as a growing source of solutions to issues that currently plague society, such as poverty, crime, and abuse (Schuyler 1998). In SA, SE has unequivocal application where traditional government initiatives are unable to satisfy the entire social deficit, where an effort on the reduction in dependency on social welfare/grants is currently being instituted, and where the survival of many non-governmental organisations (NGOs) is at stake. Such challenges are exacerbated by a social context characterised by massive inequalities in education, housing, the HIV/AIDS pandemic, and high unemployment and poverty rates (Rwigema & Venter 2004). Social entrepreneurs provide solutions to social, employment, and economic problems, where traditional market or public approaches fail (Jeffs 2006), yet despite these achievements, the government in SA appears reluctant to directly engage with SE endeavours, viewing social entrepreneurs as innately risky – maverick endeavours.

Accompanying these massive social deficits, many governmental and philanthropic efforts have fallen far short of their target markets' expectations, with social sector institutions often viewed as inefficient, ineffective, and unresponsive. In particular, policymakers have limited guidance, and recognise that the invisible hand frequently fails to assert itself in the most socially beneficial outcomes (Christie & Honig 2006). Moreover, many poverty alleviation programmes have degenerated into global charity rather than serving local needs, since most projects have been conceived and managed by development agencies rather than by members of the community, resulting in a lack of ownership on the part of the target beneficiaries (Peredo & Chrisman 2006).

Internationally, the SE situation is much the same, with non-governmental developmental organisations (NGDOs) working in developing countries noting their role as primarily providing subsidies on behalf of global donors; this has created the circumstances for “patronage, dependency, pathological institutional behaviour, and financial malpractice” (Johnson 2000:3). What may be called a beggar mentality has emerged in many communities where there have been massive aid interventions (Peredo & Chrisman 2006:311).

Such failures suggest that there are many gaps in understanding SE activities under conditions of material poverty and in different cultural settings (Peredo & Chrisman 2006).

Today non-profit organisations are operating in a highly competitive environment characterised by tighter financial restrictions, with several

organisations vying for the same donor funds (Weerawardena & Mort 2006). Currently the non-profit sector is facing intensifying demands for improved effectiveness and sustainability in light of diminishing funding from traditional sources. Moreover, the increasing concentration of wealth in the private sector is mitigating calls for increased social responsibility and more proactive responses to complex social problems (Johnson 2000:1), consequently:

- Social entrepreneurs are perceived as mission-based businesses rather than as charities, they seek to create systemic changes and sustainable improvements, and they take on risks on behalf of the people their organisation serves (Brinckerhoff 2000).
- Though they may act locally, their actions have the potential to stimulate global improvements in various fields, whether that is education, health care, economic development, the environment, the arts, or any other social field (Dees 1998).

Giddens' (1998) view is that SE is the way to reconstruct welfare and build social partnerships between public, social, and business sectors by harnessing the dynamism of markets with a public interest focus. Consequently, profit is not the gauge of value creation, nor is customer satisfaction; social impact is the gauge in SE. Social entrepreneurs look for a long-term social return on investment. Indeed they are not simply driven by the perception of a social need or by their compassion, rather they have a vision of how to obtain improvement and they are determined to achieve their vision (Dees 2001).

## 5.5 Conceptualising social entrepreneurship

As used in social sciences research, a construct is an idea specifically invented for theory-building purposes, a construct combines simpler concepts especially when an idea is least observable and most complex to measure (Cooper & Emory 1995). To a large extent SE embodies such tendencies, where social entrepreneurs are reformers and revolutionaries, as described by Schumpeter (1934), but with a social mission, they affect fundamental changes in the way things are done in the social sector (Dees 1998).

To further elucidate the SE construct, several definitions are investigated and their components analysed.

The language of social entrepreneurship may be new, but the phenomenon is not. Peter Drucker (1979:453) introduced the concept of social enterprise when he advocated that even the most private of private enterprises is an organ of society and serves a social function; he also advocated a need for a social sector in addition to the private sector of business and the public sector of government to satisfy social needs and provide a sense of citizenship and community. Similarly, Spear (2004) poses the question of whether SE is about creating social enterprise

or is more concerned with those particular aspects of entrepreneurship that have a social dimension.

Based on the Global Entrepreneurship Monitor reports (GEM), SE is defined as follows:

*Social entrepreneurship is any attempt at new social enterprise activity or new enterprise creation, such as self-employment, a new enterprise, or the expansion of an existing social enterprise by an individual, teams of individuals or established social enterprise, with social or community goals as its base and where the profit is invested in the activity or venture itself rather than returned to investors (Harding 2006:5).*

Subscribing to the precept that 'social entrepreneurs are one species in the genus entrepreneur' and any definition should be built on the foundations of entrepreneurship theory and research, Dees (2001:2-4) offers the following definition:

Social entrepreneurs play the role of change agents in the social sector by:

- *Adopting a mission to create and sustain social value (not just private value),*
- *Recognising and relentlessly pursuing new opportunities to serve that mission,*
- *Engaging in a process of continuous innovation, adaptation, and learning,*
- *Acting boldly without being limited by resources currently in hand, and*
- *Exhibiting heightened accountability to the constituencies served and for the outcomes created.*

Each element in this definition is based on the body of entrepreneurship research, and this is the core of what distinguishes social entrepreneurs from business entrepreneurs, even from socially responsible businesses. It is also worth noting that these definitions, primarily individualistic in their conception, fail to adequately acknowledge a collective form of entrepreneurship.

Most definitions of SE in popular discourse as well as in the academic literature focus primarily on social entrepreneurs within and across the non-profit and business sectors. To build on previous work, the term SE may include any kind of social, non-profit, voluntary community service activity or initiative.

Definitions of SE range from referring to innovative activity with a social objective in either the for-profit sector, which includes social-purpose commercial ventures and general corporate social entrepreneurship, or in the non-profit sector. SE combines the resourcefulness of traditional entrepreneurship with a mission to change society (Seelos & Mair 2005). Social entrepreneurs are pathbreakers with powerful new ideas (Bornstein 1998); they are non-profit executives who pay increasing attention to market forces while maintaining strong social missions (Boschee 2001). SE is also conceptualised as a behavioural



phenomena expressed in a non-profit context aimed at delivering social value through exploitation of opportunities (Weerawardena & Mort 2006).

The UK Small Business Service defines SE as businesses with primarily social objectives, whose surpluses are reinvested in the business or community, rather than being driven by profit maximisation motive (Harding 2006: 4). Because of their structure and constitution, social entrepreneurs are able to serve a triple bottom line achieving profitability, societal impact, and environmental sustainability, simultaneously (Harding *et al.* 2005).

More recently, the term SE has emerged as a label to describe people who “create social value (through entrepreneurship) in the non-profit, private and public sectors”, which is part of the definition used by the social enterprise initiative at Harvard Business School ([www.hbs.edu/socialenterprise](http://www.hbs.edu/socialenterprise)). The Harvard definition explicitly refers to the leadership role of its graduates, whether this is as managers of social enterprises, board members of not-for-profits organisations, or as corporate leaders engaging their businesses in social purpose activities. The approach explicitly encompasses the contribution that an individual or organisation can make towards social improvement, regardless of the legal form of the organisations in which they operate, claiming to challenge the traditional dichotomy between the not-for-profits and corporate sectors.

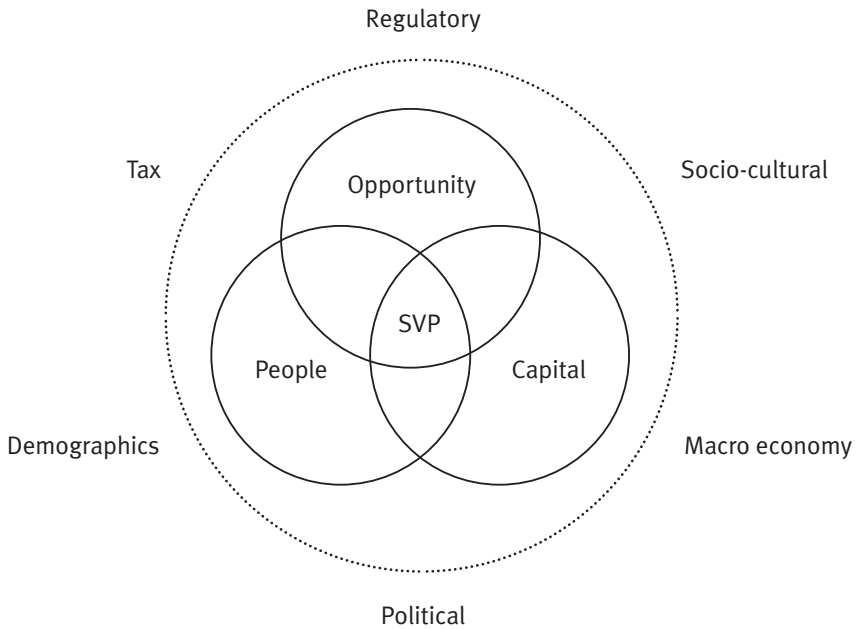
Smallbone and Lyon (2005) argue that while such an approach may be an appropriate and innovative one as far as education and training for (potential) entrepreneurs and managers is concerned, it mixes social enterprise activity and corporate social responsibility, which is not helpful in a policy context. Whereas social enterprises are organisations whose primary purpose is social, corporate social enterprises are profit-orientated (Smallbone and Lyon 2005).

Figure 5.1 on the next page represents social entrepreneurship in a framework as a Venn diagram with the opportunity circle at the top, because this is the initiating point for any entrepreneurial activity. The two enabling variables – people and capital resources – are the bottom circles.

The three circles intersect, reflecting the overlapping and interdependent nature of the variables. At the centre is Social Value (SVP) as the integrating variable. Surrounding all three circles are the contextual forces shaping the other variables and requiring constant vigilance by the entrepreneur (Austin *et al.* 2006:16-17).

The distinctive nature and central role of mission in social enterprises and the multifaceted nature of the social value generated give the SVP a logical centrality in the framework.

While people and resources supporting the venture’s growth are important and necessary, mobilising human and financial resources for social entrepreneurship is an extremely onerous task. The challenge of procuring resources for the venture can become so all-consuming for the social entrepreneur that it can become a primary focus of the organisation’s activities. The goal of furthering the organisation may inadvertently become an end itself, sometimes at the cost of social value creation. That is, social entrepreneurs may become so internally



**FIGURE 5.1:** Social entrepreneurship framework  
*Source: Austin, Stevenson, and Wei-Skillern (2006:17)*

focused on procuring resources to support their organisation's growth that the paths to creating social value may become blurred.

The resources are often a means of delivering on the SVP, but a broader perspective is needed. To deliver effectively on the SVP, the social entrepreneur must achieve a state of alignment both externally and internally among the key components of the framework, the opportunity, people, capital, and context.

## 5.6 Collective social entrepreneurship and culture

Jeffs (2006) outlines the origins of social enterprise, where the social enterprises are seen as the building blocks for enterprise development and where the original business was probably formed. The essence of social enterprises, i.e. community or collectively owned businesses, is that they have fulfilled a vital function in the evolution of a commercial culture in any society and have a long tradition.

Indeed, scholars now highlight the importance of recognising entrepreneurship as building on a collective process of learning and innovation (Peredo and Chrisman 2006). Human functioning is rooted in social systems; therefore personal agency operates within a broad network of social structure

influences, i.e. it involves a dynamic interplay between individuals and social systems (Bandura 1997). People live their lives neither entirely autonomously nor entirely interdependently in any society. The entire entrepreneurial process unfolds because individual entrepreneurs act and are motivated to pursue opportunities. Self-conceptions embody both personal and collective affects although their reactive emphasis will vary depending on the type of culture in which people are raised.

Culture presupposes a collectivity. In discussing culture Hofstede (2001) declares that it is always a collective phenomenon because it is at least partly shared with people who live within the same social environment, which usually is where it was learned, hence it is the “collective programming of the mind that distinguishes the members of one group or category of people from another” (Hofstede 2001:9).

Although Africa is largely characterised as a collectivist nation, there is a school of thought that believes that capitalism was practised in Africa long before colonisation; the amount of cattle possessed was the barometer for measuring an individual's wealth. Whereas a second school of thought argues that socialism has been part of Africa because it is a collectivist society. In terms of Hofstede's (2001) cultural dimensions factors that have been identified as limiting entrepreneurial activities in sub-Saharan Africa are power distance and collectivism (Takyi-Asiedu 1993).

A concept like Ubuntu (with an element of high community involvement) is in conflict with individualism yet differs from collectivism, where the rights of the individual are subjugated to a common good. It is this collective enablement approach that is essential for collective SE, which is more socially orientated and builds on strengths rather than dwelling on deficits, and encompasses socio-structural factors among the sources and remedies for human problems. This can be achieved not only by people changing themselves, but also by creating living environments that remove impediments and expand opportunities. Self-governing communities are more successful in changing people's lives for the better than are professional services (Bandura 1997).

Peredo and Chrisman (2006:310) developed the concept of community-based enterprise (CBE), which they define as a community acting corporately as both entrepreneur and enterprise in pursuit of the common good. Documented cases of CBE include the Mondragon Corporation Cooperative in Spain (Morrison 1991). Moreover some of the oldest, and some of the most modern social enterprises are cooperatives. A cooperative is defined as an autonomous association of voluntary united persons who meet their common social, economic, and cultural needs through a jointly owned and democratically controlled enterprise. There are an estimated 800 million members of cooperatives around the world. The Social Enterprise Coalition is an example of this type of cooperative (Cabinet Office 2007). Such views resonate with culture as capital perspective – a theory of social capital that refers to the relationships and networks from which individuals are able to derive institutional support. Social capital is cumulative, leads to benefits

in the social world, and can be converted into other forms of capital (Cooper & Denner 1998).

## 5.7 Venture philanthropy

Dees (2001) defines entrepreneurship in philanthropy as successfully implementing new and better ways of engaging in philanthropy, with the understanding of the term philanthropy broader than giving money, but narrower than any expression of love for humankind; he suggests philanthropy is mobilising and deploying private resources including money, time, social capital, and expertise, to improve the world. Venture philanthropy has been coined to refer to a method of funding voluntary organisations based upon the venture capital model that is so prevalent in the high-technology industry (Frumkin 2006). The idea of venture philanthropy represents a paradigm shift from the notion that voluntary sector organisations merely receive funds from charitable donors, to the notion of earned investment through a collaborative relationship.

Governments and philanthropists spend billions of dollars each year supporting philanthropic causes that attend to the manifold social problems of the world. Many of these efforts support start-up firms and small entrepreneurial businesses, a strategy linked to the belief that the creation and growth of new enterprises fuel the growth of the economy, particularly through employment. To date, however, few people have considered the role that entrepreneurial activity can play beyond improving employment. Based on research conducted by MacMillan (2006) such activity can directly confront social problems and create new societal wealth, for instance:

- Many entrepreneurial efforts result in significant enhancement of productivity, often starting at the regional level and then extending to the national level.
- At an aggregate level, the cumulative effects of entrepreneurial activity add to a nation's ability to compete with other nations.
- Many entrepreneurs, particularly in the United States, are seizing upon opportunities to create business ventures that focus on improving consumers' quality of life. This enhancement of quality of life manifests itself in several major forms:
  - Enhanced national health in the form of better ways to treat, diagnose, and prevent illness via products that promote improved wellness and life extension.
  - Improvements in quality of work life created by the development of new products and equipment that increase worker safety as well as allow employees more flexibility to work out of their homes or from remote locations.
  - Enhanced national education, training, and learning using technologies that dramatically improve the quality of the workforce, with concomitant gains in national productivity.

- Enhanced efficiency of government services in which entrepreneurial providers of information and telecommunication systems dramatically increase the quality and availability of services.
- Personal wealth creation leading to philanthropy: Entrepreneurial success often positively influences societies by creating philanthropists, whose huge infusions of philanthropic funds into areas like the arts (Guggenheim/Getty Museums); medical research (Mayo Clinic, Bill and Melinda Gates Foundation); and social welfare (Turner Foundation) provide critical resources that the public sector either cannot provide or cannot adequately support.

MacMillan's research is focused on the Snider Entrepreneurial Research Center (SERC) – a longitudinal research programme of social interventions based on experimental entrepreneurial philanthropy, i.e. the use of philanthropy to create experimental entrepreneurial firms that attack social problems. Specifically, the programme focuses on using entrepreneurial experiments to attack health problems in Africa. One area of focus is AIDS in South Africa.

Accounting for 45% of the sub-Saharan GDP, South Africa serves as the financial epicentre of sub-Saharan Africa. Therefore, when the infection rate in South Africa surpassed 11% and the country's life expectancy rate dropped by 35 years, HIV went from a mere problem to a civic, social, and economic crisis. Worse still, the government, police, military, nursing, and teaching communities are among the groups with the highest rate of HIV prevalence. Given these warning signs, the necessity for collective action has never been more pressing. The loss of human life on such a scale is not only a human tragedy, but also a prospective catalyst for the downward, irreversible spiral of the South African economy into an unsustainable financial state.

Due to restricted resources and the South African government's somewhat controversial views on HIV/AIDS, over the course of the past five years the costs of treatment have largely fallen on South Africa's private sector. Although significant strides in interventions have been made by large multinationals, small- and medium-sized enterprises (SMEs), which employ approximately 55% of South African labour, have few, if any, programmes in place. This is despite the fact that a quarter of all medium-sized enterprises have reported a tangible erosion of profits due to HIV/AIDS infections.

Indeed, studies have calculated the direct costs of an HIV-infected employee to a company as high as 60% of the employee's salary. A number of impediments have limited SMEs' ability to provide HIV/AIDS services to their employees. Boston University's Center for International Health and Development explored why, by interviewing 25 South African SMEs that do not provide HIV/AIDS services. The reasons most commonly listed for not providing an HIV/AIDS intervention programme are:

- Lack of information and access to services
- Low willingness to pay

- Reaction to the stigma
- Lack of pressure to act from stakeholders
- Unfit delivery models
- Limited capacity.

MacMillan's research validates these factors. Accordingly, the proposed intervention model developed at SERC plans to overcome these obstacles by enabling SMEs to participate in a network of subscribing firms sending their workers to a network of clinics, with an entrepreneurial database manager acting as the informational hub between multiple firms and clinics.

The emergence of social entrepreneurs with their improved access to growth capital, and networks of philanthropists has created enormous opportunities for this sector. Recently a trend, identified as philanthropic disintermediation, has emerged where younger donors have eliminated all philanthropic middlemen and look to themselves as the principal agents of their own philanthropy (Frumkin 2006).

## 5.8 Social vs. commercial entrepreneurship

In general, based on established literature and as diagnosed in section 5.5, the concept of SE remains poorly defined and its boundaries to other fields remain fuzzy (Mair & Marti 2006). Conceptual differences are noticeable in definitions of social entrepreneurship (focus on process or behaviour), social entrepreneurs (focus on founder of initiative), and social enterprise (focus on tangible outcome of SE). Indeed as Peredo and McLean (2006) propose, one can ask fruitfully both what makes SE social, and what makes it entrepreneurship. Research on SE is obviously based on the knowledge base of entrepreneurship, and any definition of SE is shaped by the prevailing findings on entrepreneurship theory and practice.

Although it is beyond the scope of this section to expound on the field of entrepreneurship, suffice to provide a contemporary definition which views the field of entrepreneurship as a "scholarly examination of how, by whom, and with what effects opportunities to create future goods and services are discovered, evaluated, and exploited" (Shane & Venkataraman 2001:218).

The social element in the definition of SE is often used to differentiate SE from commercial entrepreneurship, with the altruism motive associated with SE, and the profit motive with commercial entrepreneurship. However, Mair and Marti (2006) argue that such dichotomy is incorrect since SE, although based on ethical and moral issues, can include less altruistic reasons such as personal fulfilment, and creation of new markets and new jobs. Correspondingly, commercial entrepreneurship also has a social aspect, as previously discussed, in terms of CSR. Rather than profit vs. non-profit, Mair and Marti (2006) suggest that the main difference between business and social entrepreneurship lies in the relative priority given to social wealth creation vs. economic wealth creation. Similarly,

Peredo and McLean (2006) interpret a range of social entrepreneurs, with a continuum of possibilities ranging from solely socially benefits accrued to a firm to social goals being only but one requirement of the firm; such conceptualisations reflect the absence of sharp boundaries in the SE phenomena.

Extending this line of reasoning, Lehtinen *et al.* (2007) discuss how to develop profitable business with social impacts. See table 5.1 for their classification of non-profit vs. profit organisations juxtaposed against type of entity.

**TABLE 5.1:** Comparison between the organisational entities of social enterprises and the legal forms they may take

*Source: Young cited in Lehtinen et al. 2007*

<b>Identity/ Legal Form</b>	<b>Non-profit</b>	<b>For-profit</b>
Corporate Philanthropy	Major non-profits competing for market share who find it useful to help other charities as part of corporate strategy	Business corporations whose philanthropy is part of a business strategy to enhance profits
Social Purpose Organisation	Non-profits that undertake commercial activities to generate funds and support social goals	Businesses whose owners are focused on social goals and where the for-profit form is more comfortable or practical
Hybrid	Non-profits whose leaders seek both income and social benefits	Businesses whose owners sacrifice some profits to achieve social goals

An additional difficulty in defining SE is to differentiate from the small scale, often voluntary or charitable work done by individuals making a social difference, from the social entrepreneur who establishes a high turnover social enterprise (Harding 2006). Similar parallels are evident in the entrepreneurship literature (Gibb 2000) where the difference between small business owners vs. high-growth entrepreneurs are often juxtaposed by way of seeing and doing things which are in sharp contrast to those associated with small business, which is informal vs. the more formal nature of entrepreneurship.

Social entrepreneurship strives to achieve social value creation and this requires the display of innovativeness, pro-activeness, and risk management behaviour. This behaviour is constrained by the desire to achieve the social mission and to maintain the sustainability of the organisation. In doing so social entrepreneurs are responsive to and constrained by environmental dynamics.

Such views are reinforced when Weerawardena and Mort (2006) advance the concept of SE through empirical research and find that SE is a bounded multidimensional construct that is deeply rooted in an organisation's social mission with its drive for sustainability, which in turn is shaped by environmental dynamism.

It has been suggested that social entrepreneurship can be conceptualised in terms of a constrained optimisation model (Fig. 5.2). This relationship can be stated in the following way.

$SVC = f(I, P, RM)$  subject to  $S, SM, E$ : where SVC: social value creation; I: innovativeness; P: pro-activeness; RM: risk management; S: sustainability; SM: social mission; E: environment (Weerawardena *et al.* 2006:32).



**FIGURE 5.2:** Bounded multidimensional model of social entrepreneurship  
*Source: Weerawardena and Mort (2006:32)*

In addition to innovative not-for-profit ventures, SE can include social purpose business ventures, such as for-profit community development banks, and hybrid organisations mixing not-for-profit and for-profit elements, such as homeless shelters that start up businesses to train and employ their residents (Dees 2001). The non-profits sector's vast array of approaches in pursuing a diverse range of missions is highly creative (Sauer 2006).



## 5.9 Social entrepreneurship practices and leadership

The rationale for the focusing on SE practices is that in many instances it is impossible to obtain start-up funds without demonstrating proof of concept together with commensurate abilities required to execute such an initiative. Those who fund social entrepreneurs are looking to invest in people with a demonstrated ability to create change, and the factors that matter most are the financial, strategic, managerial, and innovative abilities of social entrepreneurs (Kramer 2005).

Insofar the economic value of entrepreneurial ability, which is acquired through education and can be identified and measured, goes back to the 1980s, when Schultz (1980) recognised that the returns that actually accrue to education are substantially undervalued. Despite early notions that entrepreneurship is an innate skill, recent studies (e.g. Fayolle *et al.* 2005) indicate that entrepreneurship education influences both current behaviour and future intentions. Identifying business opportunities and having confidence in personal skills to implement a business may be enhanced through education and training, with evidence suggesting that those with more education are more likely to pursue opportunity entrepreneurship (high-growth ventures).

People identified as social entrepreneurs are viewed as essential proponents of social change, with their capabilities, character, and leadership abilities often under scrutiny (Kramer 2005). Established research indicates a wide range of both entrepreneurial and managerial skills, with significant overlaps, as necessary for successful SE. Like business entrepreneurs, social entrepreneurs initiate and implement innovative programmes, even though they are differently motivated, the challenges they face during start-ups are similar to those faced by business entrepreneurs (Sharir & Lerner 2006).

In developing a body of theory on SE, Austin, Stevenson, and Wei-Skillern (2006) highlight the differences between social and commercial entrepreneurship, and based on a prevailing commercial model explore new parameters when it is applied to SE. Although this distinction clearly overlaps with previous differences highlighted on social goals versus profit, an insight is noted in that the distinction between social and commercial entrepreneurship is not dichotomous, but better conceptualised as a continuum ranging from purely social to purely economic. Some of the key differences that emerge from case examples (Austin *et al.* 2006) are:

- SE focuses on serving basic, long standing needs more effectively through innovative approaches rather than commercial entrepreneurship, which tends to focus on breakthroughs and new needs.
- The context of SE differs from commercial entrepreneurship because of the way the interaction of a social venture's mission statement and performance measurement systems influence entrepreneurial behaviour (quantification of social impact is difficult).

- The nature of the human and financial resources for SE differs in some key respects because of difficulties in resource mobilisation.

Similarly, Thompson, Alvy, and Lees (2000) distinguish between social entrepreneurs and managers as the former being catalysts for entrepreneurial projects, while the latter being critical for seeing initiatives through. Several major differences between non-profit vs. for-profit social entrepreneurs exist, such as:

- Strength from collective wisdom vs. personal skills
- Focus on long term capacity vs. short term financial gain.

To elaborate on this position emphasising social value and innovation, the next section explores the related theme of skills commensurate with successful social entrepreneurship.

The commercial entrepreneur thrives on innovation, competition, and profit, whereas the social entrepreneur prospers on innovation and inclusiveness to change the systems and patterns of societies (Jeffs 2006). Moreover, it seems that a core set of skills seems indispensable to undertake SE, even though a large number of elements play a role in SE, i.e. local culture, community management practices, previous occupational or technical skills, perceptions of macroeconomic, and the legal, social, and political environments (Peredo & Chrisman 2006).

It is recognised that the mix of managerial competencies appropriate to successful SE may however differ in significant ways from the mix relevant to success in entrepreneurship without the social component. Because of this distinction, a definition of entrepreneurial competencies/skills is offered:

*An entrepreneurial competency consists of a combination of skills, knowledge and resources that distinguish entrepreneurs from their competitors (Fiet 2000: 107).*

Several emergent themes of SE competencies arise from in-depth case study interviews (Thompson 2002; Weerawardena & Mort 2006). Some of these are:

- Networking
- People management
- Fund raising
- Mentoring
- Business training
- Environmental dynamics
- Innovativeness, proactiveness
- Risk management, sustainability
- Social mission
- Opportunity recognition.

Additionally, Thompson (2002) identifies four central themes in the form of a SE map:

- Job creation
- Utilisation of buildings
- Volunteer support
- Focus on helping people in need.

In most areas of the map, a range of activities can be found involving different degrees of entrepreneurship. Similarly, Brinckerhoff (2001) provides a SE readiness checklist that incorporates the areas of mission, risk, systems, skills, space, and finance. It seems the ability to develop a network of relationships is a hallmark of visionary social entrepreneurs, as is the ability to communicate an inspiring vision to motivate staff, partners, and volunteers (Thompson *et al.* 2000).

Orloff (2002) identifies one element to be the key to both the emergence of a social venture partnership and its continued success – leadership: the right person heading up the organisation. Lock's (2001) report on strategic alliances between non-profits and for-profit organisations finds the following criteria key to the success of the programme:

- A real and tangible mission and vision
- Reliability and commitment of partners
- Trust between the partners
- Setting aside competitiveness for funding purposes
- Power based action plans.

Similarly, identifying factors contributing to SE success, Sharir and Lerner (2006) demonstrate that eight variables contribute to success, arranged in order of their value:

- Entrepreneur's social network
- Total dedication to the ventures success
- The capital base at the establishment base
- The acceptance of the idea in the public discourse
- The composition of the venturing team (salaried vs. volunteer workers)
- Forming long term co-operations in the public and non-profit sectors
- The ability of the service to stand the market test
- The entrepreneur's previous managerial experience.

Many social entrepreneurs find that lessons accumulated from the pioneers in the field are invaluable for future success, and consequently many prescriptions are offered (Boschee 2001; Fernsler 2006; Emerson 1997; Brinckerhoff 2001). Some of these are:

- Earned income is paramount
- Practise organised abandonment (focus efforts and resources)
- Unrelated business activities are dangerous

- Recognise the difference between innovators, entrepreneurs, and managers
- Don't allow non-profit culture to get in the way (take risks, relinquish control)
- Stress customer service
- Expect to need large amounts of start-up capital
- Conduct market and pricing research
- Pay a good wage.

The above factors should also be read in conjunction with the type of enterprise in which a community-based entrepreneur embarks, which is likely to be a function of skills, trades, and resources available within the community (Peredo & Chrisman 2006). Additionally, the start-up and success of social entrepreneurs may alter the assessment of the feasibility of engaging in entrepreneurship, where the success of one venture increases the perceptions of the acceptability and desirability of other social initiatives.

According to Prabhu (1999), our knowledge of social entrepreneurial leaders is inadequate. Impressionistic accounts give indications of the characteristics, motivations, initial actions, and learning experiences of these leaders. Economic (profit-orientated) entrepreneurial leadership behaviour is complex – requiring the generalist's ability to juggle multiple activities and roles. The choice of career is voluntary and requires intense involvement, which requires that these leaders have high emotional energy and drive, as seen in the tenacity and persistence shown by them during times of adversity. They tend to experience their venture events as personal events. The most important reason for successful entrepreneurial leaders is the establishment of credibility in both the client group and society at large (Prabhu 1999). Ways of engendering high growth and development is through:

- **Partnerships**  
Social entrepreneurial organisations are rarely formed by equal partners, as it is difficult to find two equal partners with identical ideological leanings as well as operational propensities. A leader-follower dyad usually results even among otherwise equal partners.
- **Innovation**  
Close contact with their client groups can make social entrepreneurial organisations develop innovative locally responsive strategies and systems to resolve deep-rooted social issues and contradictions.
- **Members and employees**  
The nature of involvement of members may vary depending on the nature of the task. Some are completely voluntary, with no compensation for services rendered, while others are semi-voluntary, with token or subsistence compensation for full-time services.
- **Closure**  
The question of closure is a complex and sensitive issue in social ventures. Social entrepreneurial organisations need to be extremely careful to prevent a

dependency syndrome developing in their client group, and also be sensitive to register its presence.

## 5.10 Social venture franchising

Working from a perspective that social entrepreneurs build and manage ‘non-profit’ social enterprises that achieve their social missions by building businesses whose surpluses are reinvested in the enterprise or a social objective rather than distributed to owners, Tracey and Jarvis (2007) recognise that the notion of trading for a social purpose is at the core of social entrepreneurship. This requires that social entrepreneurs identify and exploit market opportunities, and assemble the necessary resources, in order to develop products and/or services that allow them to generate ‘entrepreneurial profit’.

For many within the social enterprise movement, however, social franchising represents the most promising strategy for encouraging growth and disseminating best practice. Research investigating social franchising commented that it “creates a series of partnerships whereby the parent organisation gets a comparatively risk-free route to rapid growth; the franchisee also enjoys reduced risks and a ready-made business model with all the benefits that this implies” (Piggot cited in Tracey and Jarvis 2007).

Certainly, social franchising is gaining momentum in the United Kingdom. Although the number of social franchises remains quite small, the high-profile initiatives to support social franchising by prominent organisations that represent the social enterprise movement suggest that it is likely to become an increasingly significant mode of organisation. Yet little is known about the application of business format franchising to social enterprise. Moreover, the literature that does exist is predominantly practice-oriented, focusing upon the key managerial challenges faced by social entrepreneurs engaged in franchising. It is clear from the existing literature that business format franchisors choose to strike between franchised and company-owned outlets. This is more complex than is suggested by resource scarcity theory, and successful for-profit franchisors do not generally seek to repurchase outlets over time as a strategy for maximising returns. Rather, they are inclined to choose a target proportion of franchised outlets and to maintain that proportion over time. Similarly, social venture franchisors are unlikely to repurchase outlets over time, because a preference for local ownership is liable to take precedence over the desire to maximise outlet revenues.

Of particular interest is the extent to which the existing conceptual work on business format franchising provides a framework for understanding social venture franchising. Tracey and Jarvis (2007) examine the relevance of the two main theories used to understand business format franchising – resource scarcity theory and agency theory – for social venture franchising through a case study of one of the United Kingdom’s first and most high-profile social venture franchises.

Findings from their study reveal that first, access to resources (capital, managerial expertise, and local knowledge) is a key motivation for social venture franchising. Second, social venture franchisors are unlikely to reintegrate outlets into their ownership structure over time. Third, social venture franchising is liable to lead to increased selection costs because franchisees are organisations rather than individuals, and franchisees are assessed on their ability to achieve both social and commercial objectives. Finally, social venture franchising is not liable to lead to goal alignment, and may actually encourage goal asymmetry.

## 5.11 Challenges facing social entrepreneurs

Social entrepreneurs and philanthropic efforts are not without criticism. Widespread flaws are evident in their foundations, specifically the unjustifiable high administration costs, which remain to this day (Economist 2006).

With little effort devoted to measuring results involving the double bottom line (financial and social performance) or the triple bottom line (financial, social, and environmental), which in any case are readily susceptible to statistical manipulation, the fuzzier goals of empowering people or changed lives further obfuscate the outputs of SEA. Cook, Doods, and Mitchell (2003: 64) highlight the false premises and dangerous forebodings of SE when they argue that pursuing social justice aims, which cannot be valued in the market, using a private entrepreneurial model, is likely to violate the case for market efficiencies. Hence the difficulty for social entrepreneurs to balance resource allocation between profit-making and welfare-providing activities becomes apparent. In fact, it could be argued that it is undesirable to implement a welfare system where the beneficiaries are subject to the vagaries of the entrepreneurial model.

Recent research (Madden & Scaife 2006) has identified the following key barriers for SE community engagement:

- Overwhelming requests and choice of viable options
- Lack of formal processes to handle requests
- Lack of vision for community engagement.

A contentious issue in SE, because of the newness of the concept, is that there are few institutional mechanisms in place to support this work (Johnson 2000); related to this issue of support is the issue of training and capacity building for SE; if SE is defined as principally employing entrepreneurial and managerial skills to the non-profit sector, then these skills are fairly replicable. However, if SE is defined as a highly creative and innovative individual approach, replication will be much more difficult to achieve, and focus would then be on developing conditions in which latent entrepreneurial talent can be harnessed for social purposes (Johnson 2000). Moreover, social entrepreneurs based in the community are able to add value in ways that are often not possible through

mainstream policies, i.e. their closeness to the community, and their perception for having a capacity for innovation that autocratic bureaucracies traditionally do not have (Turner & Martin 2005).

SE, which is rooted in entrepreneurial approaches and ideology, uses the language of business and for many individuals committed to improving social conditions, there is a discomfort with terminology such as revenue streams and return on investment in reference to social goals; at one level such discomfort may be encountering the unfamiliar territory of business jargon, and at another level the deep discomfort may reflect ideological differences (Johnson 2003).

As with mainstream entrepreneurship, SE activity is heavily influenced by access to training, modelling, and by promoting SE as an alternative business model within schools, colleges, and universities, exposure and training could induce early-stage SEA. As construed from the literature, social entrepreneurs are community-centric and rely heavily on networks and support structures, such networks being easy and cheap to establish (Harding 2006; Sharir & Lerner 2006). Since competencies can be nurtured, and since funding requests often require concomitant competencies to add value, there is a positive link between SE success and skills, and training and development for SE should be mandatory (such as the school for social entrepreneurs in the UK). Perhaps particularly in SA, which is currently beset by social inequalities, social entrepreneurs should look for the most effective methods of serving their social mandate through funding and sponsoring the activities of community-based projects. By developing capacity through relevant interventions and partnerships, social entrepreneurs can add value and meet the needs of groups who have been failed by previous government attempts in social redress. But government also has a role in fostering a culture of social enterprise by raising awareness of social enterprises among students through education and through disseminating information and providing resources to promote social entrepreneurship.

## 5.12 Conclusion

The existing theory has revealed a commonality across definitions of SE: The underlying drive for social entrepreneurs is to create social value rather than personal and shareholder wealth; and the activity is characterised by innovation or the creation of something new rather than simply the replication of existing enterprises or practices. In concordance with other SE reports it is argued that the SE definition must reflect two critical features of a social as opposed to a mainstream enterprise: the project has social goals rather than profit, and revenue is used to support social goals instead of shareholder returns.

A summary of the SE academic literature suggests a number of themes, preoccupations, and domains that have emerged. Generally these are:

- SE may be expressed in a vast array of economic, educational, welfare, and social activities, reflecting such diverse activities.

- SE may be conceptualised in a number of contexts, i.e. public sector, community, social action organisations, and charities.
- The role of innovativeness, proactiveness, and risk taking in SE are emphasised in distinguishing SE from other forms of community work.

Additionally, the chapter revealed how the definition of sustainability in the non-profit sector is quite different from the for-profit sector, with the advocacy of sustainability vs. stability being contentious in view of organisations having sustainable finances, but no community support, and therefore may probably not be sustainable. Moreover, there may be a danger, considering the non-profit sector is becoming more business-like, that they miss out on those audiences traditionally supportive of this sector.

Lessons learnt from successful SE were highlighted with the mix of managerial vs. entrepreneurial skills being cited as crucial to practice. Although it is impossible to draw clear lines between social entrepreneurs, other non-profit leaders, and for-profit entrepreneurs with socially beneficial businesses, social entrepreneurs are frequently reported as a distinct group with more positive attitudes than the general adult population, and less positive attitudes than mainstream entrepreneurs.

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## CHAPTER 6

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# THE ENTREPRENEURIAL ORGANISATION

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*Shepherd Dhliwayo*

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### 6.1 Introduction

Today, organisations are facing more dynamic environments than in the past. Change is constant, which results in organisations facing difficult challenges that put pressure on profitability. To survive in the current environment, organisations have to be flexible and respond to changes in the environment by adopting certain business practices that are conducive to achieving and sustaining successful businesses. An entrepreneurial organisation (EO) is an entity that practises corporate entrepreneurship. Corporate entrepreneurship (CE) is an entrepreneurial mindset and behaviour of an organisation. An organisation can be termed entrepreneurial if it consistently practises corporate entrepreneurship.

This chapter provides an overview of CE and a model of how an entrepreneurial organisation can be created. It also outlines the challenges of operating such an organisation as well as the benefits to be derived from successfully running an entrepreneurial organisation. The chapter does not differentiate between the terms 'organisations', 'firms', and 'businesses' nor the terms 'corporate entrepreneurship' and 'intrapreneurship'. The related terms will be used synonymously and so will be their derivatives.

## 6.2 Corporate entrepreneurship (CE)

Corporate Entrepreneurship (CE) refers to an organisation's commitment to pursuing new opportunities, creating new units or businesses, innovativeness in terms of products, services and processes, strategic self-renewal, constructive risk-taking, and pro-activeness (Antoncic & Hisrich 2004:524; Brundin, Patzelt & Shepherd 2008:223; Jennings 1994:185; Miller 1993:70). This commitment by organisations encompasses a set of activities, attitudes, and actions that are believed to help large companies regain some of the lost entrepreneurial magic characteristics of the small entrepreneurial firm (Thornberry 2001:5260).

CE at its best is not venture groups or new products, but a holistic view of the entire organisation that infuses creative strategic processes throughout the organisation (Barret, Balloun, & Weinstein 2000:51; Antoncic & Hisrich 2004:524; Jennings 1994:185). Those businesses that exhibit CE characteristics can also be termed intrapreneurial organisations (Pinchot 1985). In these entrepreneurial (intrapreneurial) organisations the individual characteristics of the entrepreneur have been adopted and are practised by the individual organisation or units within.

Corporate entrepreneurship can be an important driver of business wealth creation as well as firm growth and profitability. It is therefore imperative that all organisations irrespective of their size and ownership be entrepreneurial.

## 6.3 The entrepreneurial organisation (EO)

There is a misconception that 'entrepreneurship' is found only in small businesses. This is not the case because as argued by Jennings (1994:199), under favourable conditions, firms of all sizes, in all markets, and with all degrees of concentration can engage in entrepreneurial activities.

CE is therefore not expected only in big business but in all business types and sizes. As noted by Morris and Kuratko (2002:60) entrepreneurship by its nature is a process pursuit of an opportunity to create value without regard of the resources currently controlled, whose underlying variables are innovativeness and risk-taking proactiveness. These dimensions characterise efforts irrespective of where they occur. Therefore, entrepreneurship should be recognised as a universal concept that lies at the heart of the corporation's thinking and behaviour without which competitive advantage is impossible.

Schindehutte, Morris, and Kuratko (2000:20) point out that the spirit of entrepreneurship that permeates the organisation is essential to ensure a continuous flow of innovation, and that entrepreneurship has become a specialised function of the organisation which has seen specific individuals or teams being appointed to drive and stimulate entrepreneurial activities that culminate in active change resulting from the creation of new ventures.

An entrepreneurial organisation is characterised by an entrepreneurial dominant logic which, according to Meyer and Happaard (2000:2), is a mindset where a firm constantly searches and filters information for new product ideas and process innovations leading to greater profitability.

The recognition of the importance of corporate entrepreneurship is a reflection of the need for the entrepreneurial organisation. It becomes equally important to find out how such an entrepreneurial organisation can be created.

The critical areas to be considered when creating an EO are presented and discussed next.

## 6.4 Creating an entrepreneurial organisation

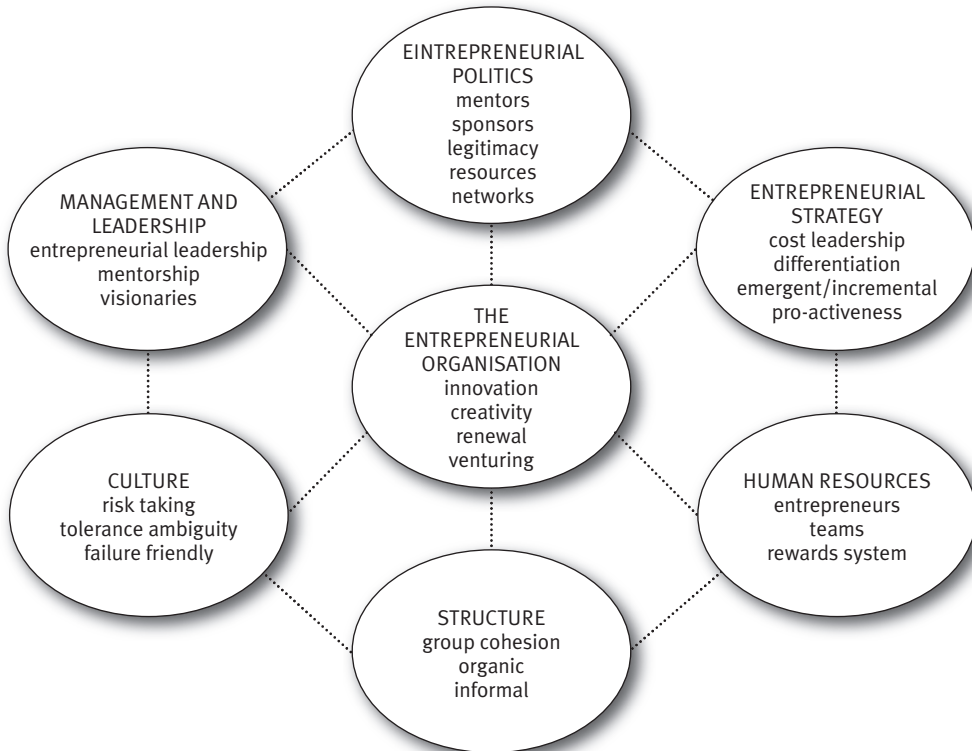
An entrepreneurial organisation is an end state. Such an organisation thinks and acts entrepreneurially. For the systems of such an organisation to function, a conducive climate should be created and maintained in a dynamic way.

An entrepreneurial climate enables all the parts of the organisation to fit and function together as a unit. The entrepreneurial process is a complex one that enables entrepreneurship to flourish, curtail it, or disrupt its establishment. Hamel (2003:473) argues that all forms of complexity (entrepreneurship or strategy) are poised on the border between perfect order and total chaos, between absolute efficiency and blind experimentation, between autocracy and complete adhocracy.

As pointed out by Brundin, Patzelt, and Shepherd (2008:221) today's complex and dynamic environment is characterised by rapid substantial and discontinuous change under which, to survive, firms must follow an entrepreneurial strategic posture and encourage their members to act entrepreneurially. Corporate environments supportive of entrepreneurship must provide appropriate reward systems, top management support, explicit goals and appropriate organisational values which signal to employees that entrepreneurial behaviour action is desirable.

Businesses, their strategies, structures, and management teams are becoming more complex, and businesses need to know where they are, where they are going, and how to manage (Desai 2000:685). An ability by organisations to manoeuvre well in these complex environments has its benefits. Zhao (2005:28), researching on perceptions of entrepreneurship and innovation, found that entrepreneurial businesses (businesses that were continuously creating new products and services, projects, new business opportunities, and markets), regardless of size and the industry, had a positive link with performance. He also found that these businesses incorporated their vision of innovation into their entrepreneurial strategies and actions. Innovation is the core of the entrepreneurial organisation. Creation is the basis of entrepreneurship. It is around this core that other elements of the organisation such as strategy, management style, and structure are built.

A model for creating an entrepreneurial organisation is shown below in figure 6.1 followed by a discussion of each of the different aspects (component factors) of this model. Each factor of the EO structure, culture, management (leadership), politics, strategy, and human resources directly and indirectly links to the other factors as well as the central concept of entrepreneurship. Each of these influences the other and the level of entrepreneurship in the organisation. These linkages are outlined in the discussion.



**FIGURE 6.1:** Model for creating an entrepreneurial organisation

*Source: developed from literature*

The entrepreneurial organisation should take into account all the factors illustrated in Figure 6.1 with the aim of striking a systems or operational fit. The tenets of an entrepreneurial organisation become the dominant logic under which the other factors should be rallied around in support of CE and its sustenance.

## 6.5 Entrepreneurial strategy

Strategy is about 'who we are' and 'where we are headed'. Without a clear overarching sense of direction of where a company is going or what it stands for, entrepreneurship becomes a random set of initiatives. Although each initiative may be rational on its own, when they are put together, the result is a melange that stakeholders are likely to denounce as incoherent, vague, or chaotic (Birkinshaw 2003). It is very important to understand that, when entrepreneurial actions are the foundations on which an organisation's strategy is built, an entrepreneurial strategy is being implemented (Dhliwayo & Van Vuuren 2007:124).

The whole point of an organisation's entrepreneurial strategic success is to get around problems that others find impassable, whether these barriers are institutional or technical (Mambula & Sawyer 2004:31).

According to Morris and Kuratko (2002:157), the strategy for the entrepreneurial business should have innovation as its core competence (a distinct set of activities that a business does differently and better than others). The business' strategy for entrepreneurship serves to stimulate such innovation. Strategic positioning represents the linkage to both strategy and entrepreneurship.

As noted by Jennings (1994:188) CE is a high venturing activity which tends to have a Miles and Snow's prospector strategy and an organic structure, as opposed to a defender strategy and a mechanistic structure.

This relates to the pro-active posture of entrepreneurship which (Kreiser, Marino & Weaver 2002:2) define as an opportunity-seeking, forward-looking perspective that involves introducing new products or services ahead of the competition and acting in anticipation of future demand to create change and shape the environment. Wickland and Shepherd (2005:75) add that proactive firms have the desire to be pioneers, are willing to commit more resources to projects where the cost of failure is high thereby capitalising on emerging opportunities. In this strategic posture, which Hisrich and Peters (2002:47) term "risk taking pro-activeness", businesses take risks by conducting experiments, boldly and aggressively pursuing opportunities.

The dynamism of hypercompetitive markets leads to an increasing divergence between intended and emerging strategies, and therefore there is need for the explicit promotion of emergent strategies allowing the corporation to react faster and be more flexible to trends in the hypercompetitive markets (Michalski 2004:16). A prospector strategy allows for this fast and flexible pro-action and re-action.

Strategy is formulated to align the organisation with its environment and as stated by Zahra (1993:324) when environmental hostility rises, companies usually proceed to redefine their business, decide new domains, and undertake significant alignments in their operations through divestments, retrenchments, or restructuring. As a result when rivalry is fierce, companies must innovate in both products and processes, explore new markets, find new ways to compete, and find ways of how to differentiate themselves from competitors.

An entrepreneurial strategic posture will enable an organisation to define itself and chart new directions for its survival. To achieve this one of the key areas to align strategies with is that of human resources. This is critical in that it (HR) involves the central and driving resource in the organisation – people – in particular the intrapreneur. The organisational politics, structures, and leadership primarily involve the human resource factor.

## 6.6 Human resources

In an entrepreneurial organisation the recruitment and selection process should ensure the hiring of entrepreneurial people. As noted by Morris and Kuratko (2002:238), the human resources function should ensure that it recruits the right people (entrepreneurs), reward entrepreneurship, and see to it that an enabling entrepreneurial work environment is created. Such an entrepreneurial work environment is created through the following ways:

- Job planning should allow employees to show initiative
- Performance appraisals should guide and reinforce employee initiatives and help them identify entrepreneurial performance
- Employees should be trained and developed to recognise their entrepreneurial potential and develop the skills to best capitalise on that potential.

To retain these innovative employees Rwigema and Venter (2004:80) note that room should be given to intrapreneurs to experiment and innovate, and to unleash their creative potential to the large gains for the corporate parent.

Sinetar (1994:286) notes that the creative thinker derives his/her greatest pleasure from the act of thinking itself and, from the creative process in action and the organisation should not overlook or misinterpret this fact. In addition organisations are designed to administer, maintain, and protect what already exists. Creative thinkers (intrapreneurs) are designed to bring into existence that which has never been before. This disturbs the well-oiled machinery of organisational process and needs to be well managed.

Intrapreneurs are individuals who are easily bored and would rather move into untried areas, are neither risk averse nor troubled by ambiguity, and they need to use their minds to solve difficult, personally fulfilling problems (Rule & Irwin 1994:288).

According to Sinetar (1994:285) there is much evidence suggesting that most large organisations are insensitive to the nuances and idiosyncratic work style of the creative personality. A substantial number of creative people are strangled within the orderly, systematic cultures of large companies. Sometimes they leave and sometimes their ideas just die, unused, and unnoticed.

The entrepreneurial organisation synthesises the intuition and creativity of an entrepreneur into a vision of the future. Meyer and Haggard (2000:8) note that firms pursuing entrepreneurial strategies experiment more than other firms



and that their portfolios of products and services have more new risky elements than typical firms. In addition, the entrepreneurial strategies focus primarily on the internal organisation, on how people can be innovative and creative, and on building responsibilities and trust.

When business needs to be entrepreneurial and survive in these highly competitive environments it becomes imperative to recruit, breed, and support and retain the creative individual. Neglecting to do so is condemning the organisation to entrepreneurial failure. The human resources function plays an important role in structuring the organisation. The business should be properly structured to accommodate the intrapreneurial personality and the organisation's entrepreneurial endeavours.

## 6.7 Organisational structure

The structure of an entrepreneurial organisation has to be flexible for it to be accommodative of the continuously changing environment.

As suggested by Kazanjian (2002:192) the different tasks of knowledge leveraging present in varying degrees in corporate entrepreneurship strategies create contingencies for forms of organisational structure. Designing appropriate business forms to deal with these critical contingencies enhances the management of knowledge and ultimately the effectiveness of any strategy for corporate entrepreneurship.

Researchers have characterised the image of an entrepreneurial organisation as having features similar to Burns and Stalker's organic structure, which is characterised by decentralisation, flexibility, and the absence of rules and regulations (Hisrich & Peters 2002:49), a structure which promotes proactiveness and idea sharing to anticipate market opportunities (Zahra & Bogner 2000:135).

A more network-oriented 'lean' structure as opposed to a hierarchical management structure encourages entrepreneurial initiatives. The multiple, informal networks in an entrepreneurial business are designed to access resources from within and through collaborative network 'team' relationships, and an atmosphere where employees are free to create and seek new opportunities (Eliason, Wickland & Davison 2002:2; Thornberry 2003:330). Lean (flat) structures normally allow for employee empowerment, experimentation, and a learning environment more receptive to failure.

Flexible structures enable the organisation to easily shift resources and to simultaneously grow new resources (Miles, Heppard, & Snow 2000:105). This is critical in the operations of an entrepreneurial organisation as well as its sustenance. Maximising value creation from limited resources, through innovative and creative ways, is what entrepreneurship is about. Such a structure should enable the business to re-generate itself and its winning formula.

## 6.8 Culture

The culture of an organisation touches and influences everything that people do. It is pictured as existing on different levels, such as assumptions, values (substance) and artefacts (forms), rules of conduct, vocabulary, methodology, rituals and rites, myths and stories, beliefs, attitudes, dispositions, and modes of behaviour (Morris & Kuratko 2002:255; Hunt & Levie, 2003:1), and what George & Zahra (2002:5) refer to as the enduring set of values, be it of a nation, a region, or a business.

The culture of an organisation is the shared values and belief system that glues together its different operational components. As a result the entrepreneurial culture is the core to the existence of an entrepreneurial organisation. This is a culture that anchors innovation, creativity, risk taking, and self-renewal.

This entrepreneurial culture is key to organisational success and as argued by Thompson (2004:246) intrapreneurs come up with new and valuable ideas, which they are able to resource and develop in an encouraging, enabling culture.

The need to create an entrepreneurial culture is emphasised by Hisrich, Peters and Shepherd (2005:45) who point out that the traditional culture differs significantly from an entrepreneurial one. The guiding direction in a traditional corporate culture is to adhere to the instructions given, not to make mistakes, not to fail, not to take initiative but wait for instructions, to stay within one's turf, and protect one's backside. An entrepreneurial environment is one where the business operates on the frontiers of technology, new ideas, trial and error is encouraged, failure is allowed, there are no opportunity parameters, and resources are available and accessible. There is also a multidiscipline teamwork approach, a long-time horizon, a volunteer programme, appropriate reward systems, sponsors and champions, and there is support from top management.

Top management should therefore try to establish an entrepreneurial culture that inspires individuals and groups to engage in corporate entrepreneurship.

According to Elliason, Wickland and Davidson (2002:3), Covin and Slevin (2001), and Zahra (1993), an appropriate business culture is one of the key factors fostering entrepreneurial activities in organisations.

Such an entrepreneurial culture should glue together the organisation's entrepreneurial strategy, structure, human resources, management style, and politics so that there is an operational entrepreneurial fit. One cultural aspect of an organisation is its politics.

## 6.9 Entrepreneurial politics

In building corporate support for new business creation (entrepreneurship) Sathe (2003:182) states that the entrepreneur should build support through three corporate constituencies, namely the boss, top corporate executives, and relevant corporate committees and staff groups. Those who are opposed to new business

creation strategy and initiatives must be won over, neutralised, or defeated. The more powerful the entrepreneur's (promoter) corporate networks, the greater the possible support for new business creation. The weaker the political alliances, the more important it is to cultivate strong corporate support.

For the sake of control, managers often influence their subordinates' behaviour in ways that reduce divergent thinking and creativity. Some degree of conformity and predictability is normally required for integration (planning) of business members' efforts. Instead, their influence should promote divergence in order to produce entrepreneurial thinking (Scott 2004:187).

Unlike the normal perception that control is inconsistent with entrepreneurship, it actually facilitates it. It permits individuality and allows discretion (Morris & Kuratko 2001:221) and, as pointed out by Simler (2003: 479), great companies can be built without fixed plans, rules, and control, if entrepreneurial control is practised.

The entrepreneurial activity, as a risky resource utilisation exercise, naturally attracts resistance and organisational politics. For the entrepreneur to overcome resistance to his/her intrapreneurial endeavours and the building of corporate support, the following strategies suggested by Sathe (2003:183) may be adopted:

- Reason and appeal should be used by reframing the case for new business creation so that it is perceived as less risky, more compelling, and/or legitimate. This is communicated effectively via persuasive presentations and memorable memos. People are given confidence in a new product or service by allowing them personally to experience it.
- Opposition should be avoided or delayed by not asking for permission, but for forgiveness later if necessary, and political timing should be used to one's advantage.
- Alternatively, political power should be used to overcome opposition.

Hitt, Sexton, Ireland, and Camp (2002:420) point out that for a business to be entrepreneurial, it must not only provide appropriate autonomy and incentives for individual initiatives to surface, but must also promote cooperation and group ownership of innovation if it is to be implemented successfully.

Corporate entrepreneurs must rely on their ingenuity and persistence to build influence which will enable them to change current behaviour patterns of individuals and units. They should therefore build social capital (an inventory of trust, gratitude, and obligations) that can be cashed at the opportune time in order to secure the following leverages:

- **Gaining legitimacy** through personal influence or influence networks to secure endorsements when needed.
- **Political legitimacy:** Political skills are critical and should be relied upon to gain legitimacy, garner resources, and to overcome inertia and resistance.
- **Resource acquisition:** The major method of securing resources is through cooperation, or leveraging underutilised resources. Cooperation includes borrowing, begging, scavenging, and amplifying (Morris & Kuratko 2002:183).

Individuals will invest emotionally in a business and its success when there is a chance to create a unique and exciting future in which they can share. In non-entrepreneurial organisations power is normally housed in top management with top down decision-making resulting in the disfranchisement of the intrapreneur who in the end is victimised to silence or departure. The power relationships should allow for what Hamel (2003:473) refers to as *new conversations*, where new opportunities for new insights are created by juxtaposing previous isolated knowledge in new ways, *new perspectives* where the business sees itself from new lenses, and *new experiments* which maximise a business rate of learning about which strategies will work and which will not work.

The organisational politics should be leveraged in such a way that everyone feels that a common future exists which they can shape and own.

Several researchers have indicated that a firm's success in innovation regardless of its size is the role played by its managers, the roles of sponsor, mentor, critic, and institutional leader. The sponsor has the power and the resources to push an innovation into a finished product. Mentors as role models, encourage and provide support. Critics play the role of devil's advocate to counterbalance ideas, ensuring critical business evaluations. On the other hand the institutional leader balances pro-innovation and sponsor mentor coalitions and resolves conflicts (Jennings 1994:194).

All these are critical roles of management. The establishment and sustenance of CE greatly depends on management.

## 6.10 Management and leadership

Visionary leadership is being touted as the cure for many of the ills that affect businesses in today's fast-changing environment. This type of leadership creates excitement in work, works from high-risk positions, and seeks out risky ventures, especially if the rewards are high. Visionary leadership is future-oriented and concerned with risk-taking (Rowe 2001:84). This is a leadership that is accommodative of the new conversations, perspectives, and experiments.

And as shown by Pearce II, Kramer, and Robbins (1997:157), CE can be identified and quantified in terms of the behaviours that managers exhibit. Research findings show that entrepreneurial behaviours often generate tight-knit, cohesive work groups drawn together by a shared goal and that CE can be identified by behaviours that foster change and innovation among subordinates.

Strategic leaders must be entrepreneurial, visionary, and transformational because they have a key role in shaping the dynamic dominant logic. This is achieved by having a diverse management team that provides different experiences and talents, allowing for effective leadership in the new competitive landscape (Hitt & Reed 2000:34).

Entrepreneurial leadership is about being both transformational and transactional, and these need to be distilled and integrated. As a result, the strategic

leadership of the business must not only support radical innovation, but also inculcate a corporate entrepreneurship mindset into the culture of the business. Without strategic and cultural support, there is little reason for the traditional business units to 'buy in' and support existing and future entrepreneurship systems (Kelly, Neck, O'Connor, and Paulson 2002:7).

An entrepreneurial organisation needs to have a management team whose skills are complementary, not the possession by an individual of a single, absolute set of skills or a profile. The art and craft of entrepreneuring involves recognising the skills and know-how needed to succeed in a venture, knowing what each member does or does not know, and then compensating shortcomings either by getting key people on board to fill voids or individuals accumulating the additional needed 'chunks' (Timmons 2000:246).

In a study of the effect of emotional displays by managers as it affects the desirability and feasibility of employees to act entrepreneurially, Brundin, Patzelt, Shepherd (2008:237), found that emotional displays of managers have a significant impact on the decision policies of employees where displays of confidence and satisfaction with an entrepreneurial project enhance employees' willingness to act entrepreneurially, and displays of frustration, worry, and bewilderment diminish it. The emotions displayed by managers will therefore spill over to employees influencing their emotional state and subsequent motivation to act entrepreneurially.

In addition Kuratko, Ireland and Hornsby (2001:68) point out that the supportive words (from top management) are one thing, seeing their leaders behave entrepreneurially creates employee commitment to do the same and has a more significant effect than words.

A research by Pearce II, Kramer, Robbins (1997:158) shows that managers that are entrepreneurial in their behaviour have a positive impact on their subordinates, and the study also showed that entrepreneurial behaviours increased subordinates' satisfaction with supervision.

The reflection by Thomson and McNamara (2002:682) that businesses that promote corporate entrepreneurship encourage teams to try out new ideas, modify administrative procedures, and explore new possibilities, providing what works and what does not work aptly sums up the need for the different factors of the entrepreneurial organisation to relate to each other for there to be an entrepreneurial fit.

Management should be able to manage the bold, aggressive, risk-taking individuals (Morris and Kuratko 2002:59), and make sure that their opportunistic behaviour is consistent with the planned, controlled, strategic direction of the firm.

An entrepreneurial organisation should have a culture that enables it to think and behave entrepreneurially. For this to be possible the culture should direct the politics, structure, strategy, and the human capital systems that drive entrepreneurship. These different aspects of the entrepreneurial organisation are presented in Figure 6.1 as the model for creating the intended outcome. The

aspects interact, intra-act, and are interwoven as part of the entrepreneurial organisation.

Distinctions are normally made between entrepreneurial and non-entrepreneurial businesses in terms of their characteristics. When these are summed up, it can be concluded that the non-entrepreneurial are conservative, risk-averse, non-innovative, and reactive businesses, and the entrepreneurial are innovative, proactive, and risk-taking businesses (Antoncic & Hisrich 2004:520). Entrepreneurial businesses aim at creating their own markets instead of only participating in a market. They are growth-oriented, and define their own destinies as opposed to attempting to fit into existing competitive environments.

While the traditional/administrative management style emphasised maintaining the status quo, top-down hierarchy, and the incumbent's entitlement, the entrepreneurial revolution of downsizing, delaying, restructuring, and re-engineering is about risk-taking, job creation, lifelong learning, and essentialising intellectual capital (Cooper, Markman, & Ness 2000:122). These differences are summarised in Table 6.1.

**TABLE 6.1: A comparison of characteristics of traditional vs. entrepreneurial organisations**

*Source: Cooper, Markman, and Niss 2000:123*

<b>Traditional organisation (management)</b>	<b>Entrepreneurial organisation (management)</b>
<ul style="list-style-type: none"> <li>• Security and job preservation</li> <li>• Learn one skill</li> <li>• Stability, tradition, consistency, robustness</li> <li>• Top-down command, hierarchical structure</li> <li>• Capital is equipment</li> <li>• Regulation</li> <li>• Segregation and compartmentalisation</li> <li>• Transaction and control</li> <li>• Status ascribed</li> <li>• Scarcity mentality, zero-sum game</li> </ul>	<ul style="list-style-type: none"> <li>• Risk-taking and job creation</li> <li>• Lifelong learning</li> <li>• Speed - change, adaptability, agility</li> <li>• 360° integration, flat structure</li> <li>• Capital is people's know-how</li> <li>• Deregulation</li> <li>• Integration and synergy</li> <li>• Transformation and empowerment</li> <li>• Status is achieved</li> <li>• Abundance mentality, win-win paradigm</li> </ul>

In a traditional organisation management will institutionalise knowledge to avoid having to relearn business lessons, while in an entrepreneurial one, a questioning attitude believing that learning and unlearning can co-exist is institutionalised. Additional characteristics of an entrepreneurial organisation as presented by Hisrich *et al.* (2005:45) are as follows:

- The business operates on the frontiers of technology
- New ideas are encouraged
- Trial and error is encouraged
- Failure is allowed
- There are no opportunity parameters
- Resources are available and accessible
- There is a multidisciplinary teamwork approach
- There is a long-time horizon
- There is a volunteer programme
- Appropriate reward system sponsors and champions are available
- There is support from top management.

The EO institutionalises entrepreneurship so that it becomes the culture that glues together its different systems. Many obstacles stand in the way of creating an entrepreneurial organisation. When such an organisation has been created, the entrepreneurship has to be sustained. If this is not done, whatever had been built and gained can be lost. Buden-Fuller and Stopford (2003:189) suggest the following as ways to institutionalise entrepreneurship:

- **Galvanise:** Create a top team dedicated to renewal
- **Simplify:** Cut unnecessary and confusing complexity (entrepreneurship is associated with confusion)
- **Build:** Develop new capabilities (recruit, train, and promote new cadres)
- **Leverage:** Maintain momentum and stretch the advantages (advantages are political selling points).

It is important to find ways to unleash the entrepreneurial potential that is already there. It is only when all levels of the business feel empowered and obliged to think and act like entrepreneurs, that the self-renewing business become a reality (McGrath and McMillan 2000:3; Covin and Slevin 2002:311).

The fundamental challenge businesses face will be to reinvent themselves and their industries, not just in terms of crisis but continuously bringing a current product to a current market, provided it is better or cheaper than the previous product or that of the competitor (Kirby 2003:300).

However, achieving this outcome is fraught with obstacles and challenges. When these challenges are discussed, properly understood, and addressed, the chances of an EO outcome are enhanced.

## 6.11 Creating the EO: Obstacles and limitations

This section highlights some of the challenges that can be encountered in the establishment of an entrepreneurial organisation. This is important in that it improves the chances of survival and success of such organisations given the bruising game that is corporate entrepreneurship.

Although much has been written about CE over the years, little is understood about its implementation within large company settings. There are a few guidelines regarding its implementation, and there are also very few entrepreneurial-minded people in organisations because of their dislike of large company bureaucracy and politics. Those with entrepreneurial ability who did show up were either pushed out or learned to stop pushing (Thornberry 2001:526).

This difficulty is supported by Morris & Kuratko (2002:264) who emphasise that most of the current management practices do not include entrepreneurship theory. On a practical level, managers find themselves in uncharted territory in that they lack guidelines on how to direct entrepreneurship and the business infrastructure in terms of systems, policies, and procedures, and structures are based on traditional management which often does not apply.

Embarking on a course of creating an entrepreneurial culture is more difficult than an organisation realises for it usually entails changes in its culture and values. Thornberry (2001:530) identifies the following challenges:

- Top leadership is often seduced by the concept but is unwilling to walk the walk. Entrepreneurship is about trial and error and learning from mistakes. Failure must be expected from the learning process, but firms often do not tolerate failures and mistakes and punish those who do blunder.
- The genius and creativity of an entrepreneur is not in idea generation, but it is in the art of putting the people, resources, and energy together, and shaping and executing the deal. Corporate entrepreneurs do not always possess all these skills. Therefore, the intrapreneur needs to be given a well-orchestrated team to help in the opportunity development and capturing phases.

Sathe (1988:394) notes that mandating entrepreneurs or appointing managers to become entrepreneurs results in the placement of people into roles for which they are not suited, while on the other hand the appointment of 'proven' independent entrepreneurs leads to difficulties because they lack the patience and the experience to navigate the political realities of a large company. This leads to their demise as intrapreneurs.

In order to succeed, internal ventures should be autonomous and be removed from the pressures of ongoing operations, but this autonomy is seldom allowed by the corporation and, like freedom, is most effective when it is earned rather than granted. The political game needs to be played in order to succeed (to earn) and this is usually destructive (Badguerahanian and Abetti 1995:491).

In addition Wickham (2001:78) argues that intrapreneurship presents greater challenges, particularly in older businesses that are set in their ways. This is because it involves revamping existing mindsets. The entrepreneur should convince management and colleagues of both the wisdom and viability of innovation. Scepticism and hostility are perennial obstacles and the entrepreneur should cajole, persuade, and sometimes outwit opponents to have his or her own way. Failure may be punished and may even cost the intrapreneur a career and a future. Research shows that many entrepreneurial individuals have left



employment to start their own businesses precisely as a result of the many organisational obstacles.

Starting and nurturing a business venture into a successful business paradoxically leads to a contradiction that will often become the reason for its downfall. This is because growth demands more and more autonomy and resources, often in contradiction with strategy, structure, and personalities. The resulting conflict often leads to the venture being re-integrated into the mainstream organisation, closure, or spin off (Badguerahanian and Abetti 1995:491). Resources are at times slowly but surely being drained from innovative and business creating activities, leading to a vicious circle where the ability to improve competitive position is being diminished and eroded. This need for stability seems to be gaining ground with the demise of the dot.com firms (Drejer 2004:513). The missionary type of employee is preferred than the chaos creating, entrepreneurial one.

As pointed out by Jennings (1984:161) a 'dark side' exists within the creative drive of successful entrepreneurs, which makes some of them difficult people to work with. These destructive traits include the need to control, a sense of distrust (due to fear of victimisation), a desire for applause (need for recognition and to be seen as heroes), and scapegoating (contributing to in-fighting). It creates a major obstacle to the establishment and sustenance of entrepreneurship if the key ingredient to the establishment of an EO cannot easily be 'managed' within the confinement of the firm.

The successful creation of an EO through the organisational 'systems fit' could manage these 'destructive' qualities by harvesting and redirecting them into entrepreneurship endeavours. The EO model would enable the direction of everyone's energy towards the establishment and sustenance of corporate entrepreneurship.

An overview of the importance of corporate entrepreneurship is discussed in the next section.

## 6.12 The importance of corporate entrepreneurship

Corporate entrepreneurship is of critical importance in the current, complex, dynamic, and competitive environment.

In large and mature organisations, corporate entrepreneurship is quickly becoming a weapon of choice for many of these businesses because it takes the mindset and skills demonstrated by start-up entrepreneurs, and inculcates these into their cultures and activities. CE becomes a strong antidote to large-business staleness, lethargy, lack of innovation, stagnated top-line growth, and the inertia that often overtakes mature large businesses. Corporate entrepreneurship has a cache in that it is hard to resist, because entrepreneurs exploit opportunities that others either miss or perceive as unattainable (Michalski 2000:18; Thornberry 2003:329).

Corporate entrepreneurship has strategic and organisational change connotations and includes a redefinition of the business concept, reorganisation, and the introduction of system-wide changes to increase innovation (Hisrich & Peters 2002:46). It is through this pursuance of CE that an organisation can best perform in the current dynamic environment.

As stated by Morris and Kuratko (2002:150) today's businesses find themselves operating in a newly competitive landscape which can be described in terms of four powerful forces, namely change, complexity, chaos, and contradiction. The playing field is no more level, the rules not obvious, and hierarchy no more provides context and orientation.

It is in this landscape that Stacey (1996:265) posits that "under conditions of non-linearity and non-randomness, incremental changes that may themselves seem insignificant can precipitate major discontinuous or qualitative changes because of the emergent properties triggered by marginal adjustments".

Zahra and Bogner (2000:135) aptly note that the dynamic environments serve to encourage the development of radically new products and technologies in order to capture premium market segments or pre-empt new entries. It is in these dynamic environments that businesses achieved the highest levels of performance by frequently developing radically new products while non-innovative businesses often fell behind because consumer tastes and trends are quick to change.

The importance of corporate entrepreneurship in such fragile environments cannot be overemphasised. This is more so with regard to its nature, innovation, and proactiveness (Miller & Friesen 1983:222; Covin & Slevin 1991:10), strategic renewal (Zahra 1993:321; Guth & Ginsberg 1990:5), and opportunity seeking (Lumpkin & Dess 1996:146), among other factors.

CE has widely been touted by executives and researchers alike as a means for revitalising companies and improving their financial performance. The call for firm entrepreneurial behaviour has been accepted as an inherently desirable objective, the underlying understanding being that the key elements of CE, risk taking, innovation, and aggressive competitive action will help in identifying and pursuing lucrative product/market opportunities and in providing new bases for achieving superior competitive positions (Zahra & Covin 1995:43).

Rwigema and Venter (2004:80) emphasise the fact that the intrapreneurial organisations become centres of excellence that permit collaboration and cross-fertilisation in addition to aiding in the following:

- **Business rejuvenation:** No matter how large or successful, businesses that cling to the status quo will rapidly ossify into bureaucracies defending waning privileges.
- **Growth and profitability:** Entrepreneurial start-ups account for a growing share of profit and revenues and are rapidly becoming the prize pupils.

Covin and Slevin (1995:44) note that CE provides a potential means of revitalising established companies and this is achieved through risk taking, innovation, and

proactive competitive behaviours. The risk taking is with regards to investment and strategic decisions in the face of uncertainty, the extensiveness and frequency of product innovation, technological leadership, and the propensity to aggressively compete with industry rivals.

CE requires that individual managers personify the corporate vision, and corporate entrepreneurs need to know how they can manage others to advance the entrepreneurial agenda of the organisation.

Research on entrepreneurship and wealth creation shows that “corporate entrepreneurship is a good direct predictor of business wealth creation as well as profitability and growth” (Antoncic & Hisrich 2004:533; Srivastava & Lee 2005:461). This is supported by Wickland and Shepherd (2005:73) who note that those businesses that adopt a more entrepreneurial strategic orientation perform better.

Artz and Norman (2001:2) confirm that the effectiveness of a business in using its entrepreneurial capabilities to generate innovation is a critical determinant of its long-term success and profitability.

The importance of CE is well summed up by Michalski (2004:18) who indicates that many businesses are now looking at ‘corporate entrepreneurship’ as a way of combating the lethargy and bureaucracy that often accompany size, what he terms “cultural lock-in”.

## 6.13 Conclusion

An entrepreneurial organisation is one that practises corporate entrepreneurship. This may also be termed as an intrapreneurial organisation. Corporate entrepreneurship entails being innovative, risk taking, proactive, and engaging in continuous self-renewal. For an organisation to be entrepreneurial/intrapreneurial some organisational factors such as culture, human resources, strategy, structure, and politics have to be interwoven into the organisation’s thought and behavioural processes to ensure an entrepreneurial operational fit.

The field of entrepreneurship is still in its infancy stages. It is multidimensional in nature, and its development is taking place from a multitude of disciplines. A number of publications have focused on and highlighted different aspects of entrepreneurship in the organisation. In this presentation the organisational end state of the practice of entrepreneurship is discussed.

The entrepreneurial organisation is analysed in terms of its thinking and behaviour. This is compared with those of its traditional contemporary. The EO is viewed as a desired end state, because of its flexibility, opportunity seeking, innovation, and its capacity to better scan, define, and interact with its environment. An EO is possible if organisational components, structure, strategy, human resources, culture, and leadership are critically attuned to ensure an entrepreneurial strategic fit.

Processes by their nature are complex. CE is no exception. It is fraught with difficulties. The obstacles and limitations of the establishment of an EO are varied and intricate. They include the same critical factors that need to be specifically institutionalised and successfully managed. If the EO is successfully established, the primary benefit, value creation, can be realised in a number of ways.

Though corporate entrepreneurship is still in its developmental stages, its importance and benefits have been cemented over the years through the improved competitiveness of those firms that are entrepreneurial. Entrepreneurship should be promoted in all organisations.

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## CHAPTER 7

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# THEORETICAL PERSPECTIVES ON CULTURE AND ENTREPRENEURSHIP

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*Boris Urban*

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### 7.1 Introduction

As the preceding chapters have demonstrated, entrepreneurship in its many forms offers the promise of empowering individuals and organisations, and of improving societies and nations in a variety of ways. This chapter seeks to clarify the cultural antecedents of venture creation and reviews important foundations for those encouraging more entrepreneurship, within a cultural context. This chapter does not attempt an encyclopedic review of culture, but rather identifies findings that bestow new awareness to entrepreneurship research in this regard.

A variety of studies lend support to the argument that cultural values influence entrepreneurial behaviour. Much of the study of ethnic entrepreneurs is based on issues of culture, with a growing body of literature supporting the argument that national culture influences a variety of economic/management behaviour. Because culture is a construct used in many disciplines, this chapter first examines the different theoretical perspectives on culture and is followed by a review of cultural values with emphasis on Hofstede's seminal work. Hofstede's dimensions are interpreted insofar as they apply to entrepreneurship, and in particular the individualism-collectivism dimension is linked to entrepreneurial behaviour.

Based on divergent perspectives of comparing personalities across cultures by looking for universal generalisations (etic dimensions) or by describing personalities with culturally sensitive elements (emic dimensions), the contrast between the etic and emic approaches is held up to be a false dichotomy in entrepreneurship as these concepts are no more separable than nature and nurture.

The assumption that entrepreneurship is similar in different cultures is contrasted with comparative studies that look for both similarities and differences.

Linkages between cultural dimensions and national wealth, and economic growth of certain cultures are examined. The relevance of African culture is investigated, and in fact some research indicates that cross-cultural differences may not be as pronounced as previously thought and similarities across cultures may in fact be driving globalisation.

## 7.2 Perspectives on cultural theory

Differences in perspective regarding theoretical discourse on culture have different implications for research and practice, for example:

- The most general view of culture describes culture as a set of characteristics, common to a particular group of people, and by advocating a multiple systems method as a way of approaching culture, one can see that culture refers to both objective and subjective aspects of man-made elements (Erez & Early 1993).
- Triandis (2000) in analysing issues of cross-cultural research suggests the need to stop doing research that simply mentions a country, and begin using explicit specific aspects of culture, such as the individualism-collectivism and tightness-looseness dimensions of culture, which can be measured.
- The cultural psychology perspective portrays persons and cultures that 'interpenetrate' each other's identity, and as such cannot be analysed as independent and dependant variables (Church 2000:664).
- Valsiner (2001:13) distinguishes between three discursive fields in the meaning of culture, based on the 'there exists a person within a context' assumption. This is similar to the discussion labelled independent vs. interdependent views of self, which is discussed in more detail in this chapter.
- Cooper and Denner (1998) review seven theories on the relationship between culture and psychology: the individualism-collectivism dimension of culture, ecological systems, cultural and ecological perspectives, social identity, eco-cultural and socio-cultural theories, structure-agency views, and the multiple worlds of individuals. By viewing theories as distinct yet complementary, interdisciplinary collaboration is recommended.

When deciding whether to use imported (etic) or indigenous (emic) instruments, Church (2001:983) and Van de Vijver & Leung (2001:1014) propose finding convergence between these perspectives allowing one to compare personalities across cultures (etic dimensions) and also describe personalities with culturally sensitive elements (emic dimensions), i.e. look for universal generalisations, while at the same time admitting emic information (Triandis & Su 2002). The contrast between the etic and emic approaches is often a false dichotomy, and these concepts are no more separable than nature and nurture. Church (2000) utilises



this convergent viewpoint to discuss how personality traits exist in all cultures, but account for behaviour less in collectivist than in individualist cultures.

Based on a trend analysis of culture's association with different disciplines – to understand the plethora of theories in this regard – Erez and Early (1993:71) offer a summary of approaches regarding the concept of culture. Based on their analysis, it becomes apparent that many of the associated disciplines are moving away from emphasis on cultural values as a way of describing cultures.

Equally important, certain qualifications are noted concerning cultural attributes (Triandis 1994). These are:

- Cultures and societies are enormously heterogeneous. Within each culture there are large variations in personality requiring that we qualify every statement. Multiculturalism is meant to create a sociopolitical context within which individuals can develop healthy identities and attitudes (Berry *et al.* 1992:297).
- Any description of a culture focuses on the prototypic individuals in that culture.
- 'Culture' is a label that gets mixed up with language, geography, history, religion, race, social class, and many other categories.
- Culture is a construct; it is an auxiliary concept that should be used as long as it proves useful but bypassed where we can predict behaviours without it.

A broad overview of the different assumptions underling an individual's personality in cultures as characterised by the independent versus interdependent views of self, suggests the following:

- The independent view of personality, prevalent in western countries, identifies a person as an autonomous entity, and the subsequent study of personality leads to understanding of how to predict and control behaviour.
- The interdependent view of personality, prevalent in Asia, Africa, and Latin America, identifies a person as part of an encompassing social relationship, with study of personality leading to an understanding of the relational and interpersonal nature of behaviour (Markus & Kitayama 1998).

This suggests, when undertaking research into individual behaviour and culture, that:

- Introspecting and reporting on one's characteristics is a much more natural task in individualistic cultures.
- People in collectivist cultures will exhibit less temporal and cross-situational consistency in their behaviour than people in individualistic cultures.
- Behaviour of collectivists will be less predictable from assessments of traits and attitudes and more predictable from social roles and norms.
- Trait self-assessments in individualistic cultures will be more distorted by self-enhancement tendencies as opposed to more self-effacing tendencies of collectivists. However, there is no consistent trend in this regard with some presumably collectivist respondents having responded in a more

socially desirable manner than respondents in individualistic cultures have (Mwamwenda 1993).

- Attempts to characterise cultures or individuals in broad cultural dichotomies may be overly simplistic. Indeed many researchers have begun to view the self as incorporating both independent and interdependent self-construal in varying degrees, with different selves being accessible under different contexts (Markus & Kitayama 1998).

### 7.3 Culture and values

Hofstede (1980, 2001) in discussing culture declares it is always a collective phenomenon because it is at least partly shared with people who live within the same social environment, which usually is where it was learned, “hence it is the collective programming of the mind that distinguishes the members of one group or category of people from another (2001:9)”. He asserts that culture is learned not inherited; it derives from one’s social environment not from one’s genes. Culture should be distinguished from human nature on one side and from individual personality on another; although he admits that exactly where the borders lie between human nature and culture, and culture and personality is another matter.

Values are attributes of individuals as well as cultures and to a certain extent individual values do appear to be culturally derived. However, individual values are not altogether determined by culture or directly equivalent to attitudes. Hofstede (1980:15) treats values as part of culture. Culture presupposes a collectivity. Obviously values vary within a nation and there is considerable overlap between nations and culture (Hofstede 1998).

Values are learned responses and are non-rational. In fact, values determine our subjective definition of rationality. Nearly all other mental programmes (such as attitudes and beliefs) carry a value component. Moreover, values tap what is important, belief what is true. Scales measuring cultural constructs sometimes mix values and beliefs together (Bond & Smith 1996).

A finding by Davidsson and Wiklund (1997:183) that values are more important than beliefs, is somewhat surprising, since it is generally concluded in psychological research that more proximal variables e.g. domain-specific beliefs, should have higher explanatory power with regard to specific behaviours than have distal variables such as values.

In interpreting people’s statements about their values, conceptualised as broad tendencies to prefer certain states of affairs over others, it is important to distinguish between the desirable and the desired; how people think the world ought to be versus what people want for themselves. Furthermore, what distinguishes the desirable from the desired is the nature of norms involved. In the case of the desirable the norm is absolute pertaining to what is the right, in the case of the desired the norm is statistical, it indicates the choices actually made

by the majority. The desirable relates more to ideology, the desired to practical matters (Hofstede 2001).

Many different ways of analysing and subsequently 'measuring' values are available, and a complete review is beyond the aims of this chapter. Some widely quoted authors on this matter are Rokeach (1973) and Schwartz (1992); however, most of these value models have not been linked to business outcomes.

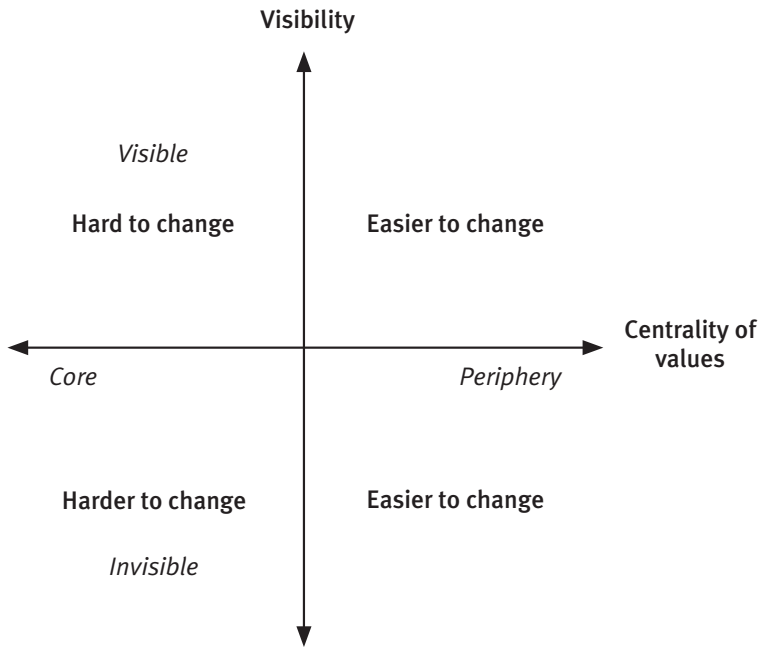
Rokeach (1973) proposed that values determined by the hierarchies of that person's terminal and instrumental values, are small in number, and are to be found universally, but in different degrees. Rokeach also noted that values change slowly, with the rank order of some values remaining very consistent. The Rokeach Value Survey has been applied to urban South Africans, with the finding that urban South Africans of all ethnic/race groups place similar relative importance on personal values (Corder 2001); this reinforces the proposition that little difference exists in entrepreneurial activity between different ethnic/race groups situated in urban areas.

Schwartz's (1992) work parallels that of Hofstede in attempting to develop an exhaustive set of cultural dimensions explaining cultural values. Schwartz generated ten motivationally distinct categories of individual values, which can be subsumed into two dimensions: openness to change vs. conservatism, and self-transcendence vs. self-enhancement.

Psychologists have focused on values which persons develop as they get experience in the world of work. Schein (1992) presents eight career anchors persons may develop early in their careers. These anchors are described as areas of the self-concept and consist of abilities, motives, needs, and values, reflecting deep and far-reaching aspects of the person. At least two of these anchors: creativity and entrepreneurship, and autonomy and independence, may be directly linked to new business formation.

Cultural values affect the perception of an individual through cognitive schema, interpretation, and sense making; therefore dimensions of culture play an important role in shaping an individual schema and sense making, which subsequently act as powerful filters that shape interpretation and perception which in turn leads to differences in behaviours and outcomes (Chrisman, Chua & Steier 2002:114).

Some authors have proposed that cultural differences may be analysed using a framework that takes into account the extent at which dimensions are core or periphery, visible or invisible (Rijamampianina & Maxwell 2002). See figure 7.1 on the next page.



**FIGURE 7.1:** The structure of culture

Source: Rijamampianina & Maxwell (2002: 18)

## 7.4 National cultures and cultural dimensions

Hofstede's (1980) statistical handling of IBM data at country level produced four empirical dimensions of national culture; these were interpreted as four independent basic dilemmas common to 40 societies. The four are labelled as power distance, uncertainty avoidance, individualism/collectivism, masculinity/femininity and a fifth dimension, using a Chinese Value Survey, is long-term/short-term orientation in work ethic (Hofstede & Bond 1988).

- Power distance, which is related to the different solutions to the basic problem of human inequality
- Uncertainty avoidance, which is related to the level of stress in a society in the face of an unknown future
- Individualism vs. collectivism, which is related to the integration of individuals into primary groups
- Masculinity vs. femininity, which is related to the division of emotional roles between men and women
- Long-term vs. short-term orientation, which is related to the choice of focus for people's efforts: the future or the present (Hofstede 2001:29).

The four dimensions of Hofstede's correspond closely to the four standard analytical issues predicted by Inkeles and Levison as far back as 1954.

Hofstede's (1980, 2001) dimensions are widely used for the following reasons: the measures are based on data from 53 developed and developing countries and subsequent studies indicate significant correlations with these dimensions when replicated (Hoppe 1990; Sondergaard 1994). Furthermore, country scores are validated when compared with data from other surveys and indexes measured at country level (e.g. GNP).

Additional analyses of cultural dimensions have been conducted by Trompenaar (1993) who, in discussing different manifestations of culture, notes that national culture occupies the highest level. He identified the following dimensions: achievement vs. ascription, universalism vs. particularism, individualism vs. collectivism, neutral vs. affective, and specific vs. diffuse. An additional finding in the further analysis of Trompenaar's database, where two separate dimensions, i.e. conservatism-egalitarian commitment, and loyal involvement-utilitarian involvement were identified.

Other highly salient, yet under-researched dimensions are paternalism and fatalism, both of which have significant implications for managerial assumptions and human resource management practices (Aycan *et al.* 2000).

Hofstede reports that sources of data on national culture should discriminate i.e. they should indicate those characteristics, which apply to this population and not for others, and they should apply, if not to all members of the population, at least to the statistical majority, otherwise it remains a false generalisation. Statements about culture are not statements about individuals. Hofstede cautions that we do not compare individuals but compare central tendencies in the answers from that country. The culture of a country is not a combination of properties of the average citizens or a "modal personality" (Hofstede 1991:112). An error, which psychologists sometimes make when looking at culture, is to treat it as a kind of common personality; this however overlooks the fact that cultures are formed by the interaction of different personalities, both conflicting and complementary, forming a whole, which is more than the sum of its parts. Hofstede warns that the logic of societies however is not the same as the logic of individuals looking at them. The grouping of the different aspects of a dimension is always based on statistical relationships i.e. on trends for the phenomena to occur in combination. Therefore dimensions can only be detected on the basis of information about a certain number of countries, at least ten.

Another contention in the literature is that nations cannot be equated with societies. In nations that have existed for some time there are strong forces toward further integration, e.g. one dominant national language, a common mass media, a national education system; on the other hand there remains a tendency for ethnic, linguistic, and religious groups to fight for recognition of their own identity. Hofstede warns against using nationality, as the criterion is often a matter of expediency, but where it is possible to separate results by regional, ethnic, or

linguistic groups. Countries and ethnic groups are integrated in social systems for which the four dimensions are applicable.

Hofstede's work has been subject of considerable debate, with researchers adopting a more emic perspective arguing that culture in all its complexity cannot be captured quantitatively and reduced to four/five variables. Others point out that culture is changeable, and in some countries too heterogeneous to lend value to understanding. Sivakumar and Nakata (2001) argue that despite this heterogeneity within any nation state there is a set of modal values.

Generally, research on national culture supports the existence of the cultural specific dimensions, as outlined earlier; one study, which examines all five of Hofstede's cultural dimensions using data from 18 countries, finds support for its hypothesis that performance is higher when management practices are congruent with national culture (Newman & Nollan 1996). Even more encouraging is that the cultural level indicators of social cultural dimensions better predict a tendency toward entrepreneurship than individual level indicators do (Begley & Tan 2001).

## 7.5 Cultural influences on entrepreneurship

It has been reported that the formation of entrepreneurial start-up ventures is the most effective way to relocate labour and capital in a transitional economy (Luthans *et al.* 2000). Recent research among European countries in transition underlines the point that entrepreneurship exists in every country. This spirit can be fostered with an appropriate framework. If entrepreneurship is not valued in the culture of a particular country, then not only will it be associated with criminality and corruption, but other forms of economic encouragement will also prove ineffective.

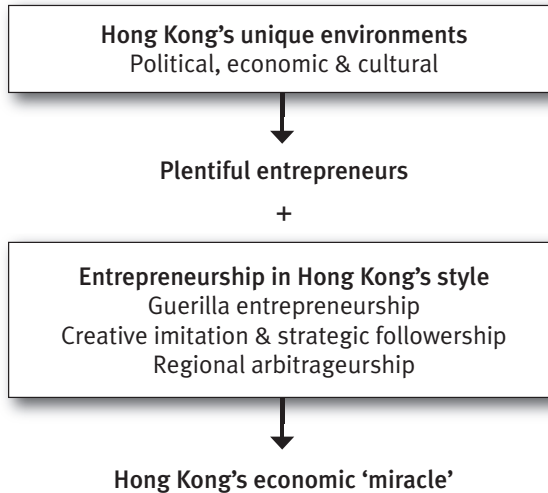
The experiences of the former Soviet countries demonstrate that during the initial stages of transition to a market economy, entrepreneurship as a source of economic growth is not only unsupported but it is largely neglected and even suppressed. The 'criminalisation' of the economy has been emphasised in that small business in Russia must depend on private – and often informal or criminal – sources of credit.

The aggregate level of entrepreneurial activity in any country is uncertain and heavily influenced by cultural traits. For instance, there is a significant difference among entrepreneurial rates of different groups, which may occur in spite of relatively modest differences among their economic and institutional characteristics. Some individuals with different cultural roots tend to be more prolific in initiating ventures. Statistics show the rate of business ownership for Asians is more than quadruple the rate for United States blacks – 54.8 versus 12.5 per 1000 (Boyd 1990).

Researchers such as Yu (2000) see developing countries as having failed to promote adaptive entrepreneurship. Instead, Yu argues, these states engage largely

in rent-seeking activities and exhibit the characteristics of ‘vampire states’, such as Kenya in the late 1980s whose rulers were described as predatory, i.e. their efforts to maximise the resource flow under their control erodes the ability of the resource base to deliver future flows.

Yu (2000) presents an entrepreneurial model (see figure 7.2) of Hong Kong’s economic growth to represent an entrepreneurial society. Clearly cultural influences are drivers towards plentiful entrepreneurs.



**FIGURE 7.2:** Entrepreneurial model of Hong Kong’s economic growth

*Source: Yu (2000:189)*

When interrogating the role of culture as an explanation of the economic success of the Asian Tigers countries, it was established that by economic criteria alone the success of the Asian Tigers could not be accounted for, and that it took an East Asian instrument, the Chinese Value Survey (CVS), to find a true proof of the role of culture as an explanation of the economic success (even though the contrary – the collapse of several East Asian economies in late 1997 has somewhat undermined the presumption that national culture has a direct influence on economic growth).

In discussing the relationship between culture and new firm formation, Davidsson and Wiklund (1997:182) offer two views:

- First, the supportive environment perspective or societal legitimisation perspective, i.e. prevailing values and beliefs among others may make a person more or less inclined towards new venture formation.
- Secondly, a relationship may occur because some regions have a larger pool of potential entrepreneurs (this view is in accordance with McClelland’s [1961];

Bygrave & Minniti's [2000]; and Thornton's [1999] work, which focuses on the embeddedness of entrepreneurship in social and structural relationships).

As a matter of fact, it has been suggested that entrepreneurship is a self-reinforcing process (Bygrave & Minniti 2000). Entrepreneurship leads to more entrepreneurship, and the degree of entrepreneurial activities is the outcome of a dynamic process in which social habits (entrepreneurial memory) are as important as legal and economic factors. Thus entrepreneurs act as catalysts of economic activity, and the entrepreneurial history of a community is important.

Bygrave & Minniti (2000) propose that the agent's choice is influenced by the others' chosen paths, and claim that entrepreneurship is hence an interdependent act. Together with threshold models of collective behaviour, indications are that an individual's decision does not depend on his preferences alone but is influenced by what others choose.

Such views resonate with Cooper and Denner's (1998: 574) perspectives, i.e. culture as capital; a theory of social capital, which refers to the relationships and networks from which individuals are able to derive institutional support. Social capital is cumulative, leads to benefits in the social world, and can be converted into other forms of capital.

Although research in general has boosted the demand side perspective of entrepreneurship by focusing on the influences exerted by firms and markets, over the last 30 years Weber's (1948) theory of the origin of entrepreneurship as a cultural consequence of individualism has been the meta-theory underlying the dominant supply side perspective in entrepreneurship research (Thornton 1999). Focusing on entrepreneurship as a cultural consequence, studies have tested Weber's (1948) thesis relating the protestant work ethic (PWE) to economic success. Paradoxically, individuals in developing countries (mostly non-protestant) tend to average higher on PWE measures than individuals in developed countries. Similarly, other studies have found many behavioural models include assumptions about capitalism and protestant work ethic that are not applicable in many countries (Jaeger & Kanungo 1990).

Such counter-intuitive results prohibit the uncritical adoption of western concepts in entrepreneurship studies and are often not helpful in a culturally different context. Searches for culture-fit models which provide understanding of how the cultural variable explains the effect of different practices in different cultures, is desirable (Aycan *et al.* 2000).

Referring to entrepreneurial orientation (EO), as operationalised by Lumpkin and Dess (1996), it has been suggested that the EO serves as a mediator in the relationship between culture and entrepreneurship. In fact a cultural model of entrepreneurship has been conceptualised, which suggests that entrepreneurship is more compatible with certain cultures, and a strong EO will ultimately lead to increased entrepreneurship (Lee & Peterson 2000). In an effort to understand the role of an EO and venture start-up culture in South Africa, research indicates that the prevailing culture is not supportive of the development of EO (Pretorius &



Van Vuuren 2002). Many categorisations of African culture exist, and based on the main cultural dimensions, Kinunda- Rutashobya (1999), and Themba *et al.* (1999), propose possible intervention strategies to cultivate a culture conducive to entrepreneurship in developing countries.

Hofstede (1980, 2001) did not specify the relationship between entrepreneurship and culture. However, his dimensions are useful in identifying criteria of culture related to entrepreneurship. Hofstede demonstrated linkages between cultural dimensions and national wealth, and economic growth of certain cultures. Based on Hofstede's four cultural dimensions, uncertainty avoidance and masculinity appear to be relevant to economic freedom.

Research findings are predominantly supportive of the positive relationship between economic freedom and economic growth, with a strong relationship between uncertainty avoidance and economic freedom. However, alternative perspectives exist which maintain that economic freedom is a result, not a cause of economic growth. Highly relevant is that the mere presence of cultural values is insufficient to explain economic growth; a nation's economic progress also depends on economic freedom, which seems to be the missing link between culture and economic growth (Johnson & Lenartowicz 1998).

Conversely, it has also been emphasised that economic freedom may also have a negative effect on a country's level of economic development by increasing income inequality between rich and poor and widening the gap between quality of life in urban and rural areas, both of which seem to have transpired in contemporary South Africa.

Furthermore in terms of the cultural dimensions, a link between the individualism-collectivism dimension and national wealth of a country has been suggested, although the reverse causality, i.e. national wealth causing individualism, is more plausible and is statistically supported by Hofstede's research. This may be explained as when a country's wealth increases its citizens tend to have access to resources, which allows them to do their own thing (individualism). Moreover, what transpires is that such a negative relationship between individualism and economic growth, particularly prevalent in the very wealthy countries, suggests that this link leads to its own undoing, where wealth has progressed to a level at which most citizens can afford to do their own thing, which leads to friction losses, and the national economy grows less.

## 7.6 Entrepreneurial behaviour and interactions with culture

Theories of entrepreneurship which have focused on one-sided determinism, where either environmental or personality variables have been specified as unique predictors of entrepreneurship, have failed to capture the complexity of human action that encompasses the interaction of environmental, cognitive, and behavioural variables (Bandura 1986;1997). It is further postulated that if we

cannot measure cultural factors affecting entrepreneurial behaviours and subtle changes in response to these, how can we aspire to understand the reciprocal relationships between them?

Based on these theoretical underpinnings, entrepreneurial motivation is likely to be conceptualised as a function of not only culture and personality but also as the interaction between personality and the cultural values. This relationship is expressed as follows to extend the model as proposed by Van Vuuren and Nieman (1999):

$$E/P = a + bM(C \times P) [(cE/S \times dB/S)]$$

Where entrepreneurial performance (E/P) is a function of culture (C) x personality (P), and where both are treated as essential elements of entrepreneurial motivation (M). (Although such neat formulations are appealing, if entrepreneurship were nothing else but algebra, it would be expedient to register all variations of influences on these phenomena.)

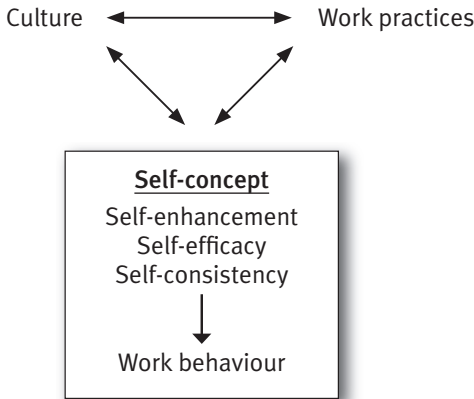
Certain universal principles of behaviour and motivation seem to cut across cultural borders, where the content domain of human needs and motives are universal. The need for enhancement, efficacy, and consistency are universal human characteristics, yet the salience of the various needs as well as the means for satisfying them, may indeed vary across cultures.

Cultural values can be seen as directing an individual's selective attention to stimuli in the work environment, and they serve as criteria for evaluating and interpreting motivational tendencies.

In some cultures people are highly motivated to be unique, whereas in others people prefer to be like everyone else. For instance, motivation in individualist cultures increases following success, whereas in collectivist cultures it increases following failure since the individual focuses on how to change the self and improve the fit between self – environment (Triandis & Su 2002).

A cultural self-representation model (see figure 7.3), developed by Erez and Early (1993), represents culture as it manifests itself in an individual's self-identity through basic motives for action. This model proposes that the self in terms of their contribution to self-enhancement, efficacy perceptions, and self-consistency evaluates the potential use and ultimate effectiveness of various management techniques in work behaviour. Cultural norms and standards determine the criteria for evaluation.

In recent years there have been almost 100 studies published annually examining some phenomena from the point of view of individualism and collectivism (Triandis & Su 2002). Impressive summaries of individualism-collectivism (I-C) exist (Earley & Gibson 1998; Triandis 1995) and no attempt is made to surpass these excellent consolidations. However, what stands out in this mass of research is that even though I-C is a broader term than the interdependence-independence construal, the conceptualisations of I-C share a number of similar dimensions. For instance, Erez and Early (1993:92) use a



**FIGURE 7.3:** The cultural self-representation model

Source: Erez and Early (1993:22)

categorisation scheme based on five criteria to explain these similarities; breadth of construct, time frame, level of analysis underlying motives or interests, affective and loyalty aspects, and specification of collective or in-group. I-C is often depicted as a dichotomy between self-interest vs. group interest. Perhaps it is more reasonable to say that all individuals have self and group interests. Culture influences which of these interests will manifest themselves in a particular setting.

Furthermore, it is not agreed that all cultures have varying amounts of the I-C tendencies, since the temporal component of individualism and collectivism is not uniformly applicable to both ends of the continuum. For example, an individualist may be just as committed to a group goal as a collectivist during the time when the goal is relevant for the in-group and satisfies self-interest. If we ignore temporal dimensions underlying the I-C orientation we may erroneously conclude that individuals are incapable of committing themselves to the goals of in-group.

Erez and Early (1993), use two dimensions to identify antecedents and consequences of I-C: proximity to the individual and time perspective. There are a number of antecedents of I-C, ranging from economic development and child-rearing patterns, to social movements. At a general level I-C is related to the wealth and economic development of societies, and still further to the agriculture/hunter origins of society (Triandis 1995).

Individualism-collectivism are used at the cultural level, whereas at the individual level of analysis, i.e. within -culture analysis, the corresponding terms are idiocentrism and allocentrism. Allocentrics tend to define themselves with reference to social entities, have internalised the norms of their in-groups and are

generally more ethnocentric than idiocentrics (Church 2001:914). In all cultures there are both idiocentrics and allocentrics, albeit in different proportions; generally, in collectivist cultures it is reported that there are approximately 60% allocentrics, and in individualist cultures about 60% idiocentrics. For instance, achievement motivation is socially orientated among allocentrics and individually oriented among idiocentrics. Additionally there appears to be some support for the culture fit hypothesis, which states that allocentrics are better adjusted in a collectivist culture and idiocentrics in an individualist culture.

It has been proposed that the I-C contrast corresponds to the deep structure of cultural differences (Triandis & Su 2002). Other researchers that link the conceptualisation of self-concept and cultural dimensions of I-C are Parkes *et al.* (1999). In their study the contextual scores were not related to I-C independent of the social self-concept. These results suggest that I-C influence the self in context only inasmuch as the context is social. In addition, Early (1994) provides insight into the impact of I-C on socio-cognitive aspects of teams such as group efficacy.

There are two main streams of research on the effects of individualism-collectivism (I-C) on entrepreneurship (Tiessen, 1997):

- The micro level stream identifies those who generate variety – founders who tend to be individualistic.
- The macro stream associates both I-C with national level of economic growth and innovation.

Based on the first proposition, and in light of contradictory empirical evidence (i.e. the economic success of several collectivist Asian countries) Tiessen (1997) acknowledges that I-C is not negatively related: which allows one to recognise that both orientations can contribute to entrepreneurship. Research portraying average levels of these orientations can obscure the presence of both behaviour types. For instance, Confucian values motivate entrepreneurs in the Asian Tigers to establish and develop businesses in order to provide for their extended families. Similarly, typical United States individualism does not prevent corporations from utilising teams or from forming strategic alliances.

Even though international research conducted at the individual and firm levels supports that entrepreneurs tend to be individualistic, studies at the national level suggest that both I-C are positively associated with entrepreneurial outcomes. It is suggested that these findings differ because micro level research focuses on variety generation (however, this focus does not identify proclivities for another entrepreneurial function – leveraging resources, which is very different from variety generation and requires creativity), while macro studies also capture the outcomes of resource leverage (Tiessen 1997).

Equally important, Morris *et al.* (1994) report that a balanced level of I-C leads to greater entrepreneurship in their multi-country sample, which includes South Africa. They predicted values for entrepreneurship along their plotted I-C continuum, showing how entrepreneurship declines the more collectivism

or high levels of individualism are emphasised. This analysis reveals that entrepreneurial activity peaks at moderate levels of individualism, with extreme individualism promoting gamesmanship, zero sum competition, and absence of team identification, all lowering levels of entrepreneurship.

In reviewing studies that relate cultural variables to national levels of small business development, data does not unequivocally support the US image as the “individualist home of the entrepreneur” (Tiessen 1997:374). It is recommended that researchers move beyond ethnocentric approaches, which assume entrepreneurship is similar in different cultures, and undertake comparative studies that look for both similarities and differences.

With philosophical overtures, Sarasvathy (2001:260) recommends when discussing causation and effectuation, we need to give up ideas such as successful personality and rather “need to learn to deal with a rain forest of individuals and firms and markets and societies, intermeshed and woven together and completely coherent yet vastly diverse local patterns that add up to a complex, interdependent ecology of human artifacts.”

In a study investigating the cross-border transfer of organisational knowledge it was noted that there are strong interactions between cultural patterns and cognitive styles. In addition, some cultural contexts might foster some cognitive styles that are responsible for the evolution and practice of certain types of organisational knowledge (Bhagat *et al.* 2002). Individualists believe it is possible to articulate, organise, and create knowledge primarily from theoretical analysis; they are able to process complex information that is linear, complex, and explicit – such as scientific frameworks. Individualist cultures are more abstract, with cause and effect relationships being important, whereas in collective societies the salience of context in addition to analysis is emphasised, the strength of collectivist culture lies in the propensity to absorb and transmit tacit information with associative modes of thinking.

As previously noted it is important to remember that traits do not predict behaviour as well in collectivist as in individualist cultures. A probabilistic conception is that people in individualist culture sample mostly internal attributes of self, whereas collectivist cultures sample mostly the collective aspects of self. Here, Nsamenang (1999) adds that knowledge of self may not be considered apart from knowledge of others, since both develop simultaneously through interaction with the social and non-social world.

## 7.7 African culture and entrepreneurship

The modernity trend in Africa has been observed, which is characterised by an individualistic, rational, and secular view of life as opposed to the traditionalist, collectivist, metaphysical, and moralistic orientation. African communities are under the strain of the competition between acculturation toward urban, western vs. indigenous African value systems (Mpofu 1994:344). Nevertheless,

studies of cultural minorities in an Anglophile culture milieu suggest that only visible behaviours, behavioural intentions, and role perceptions are orientated toward the behaviours of the dominant culture, the core, invisible elements of the traditional culture, such as attitudes and values, remain intact.

People exist at different levels of acculturation. Differential effects of acculturation can be expected. On visible attributes one is likely to be rewarded for merging with mainstream. But on beliefs, attitudes, and values, the rewards may be greater for affirming membership in one's ethnic group. Thus in many studies, as culture changes, they first change on superficial traits (material), and subsequently on more basic traits such as child rearing patterns or religion (Triandis 1994:65).

Triandis (2001:919) argues that studies are needed that will untangle the constructs from modernity, affluence, urban status, migration, and exposure to Hollywood. A global culture is emerging which is compatible with idiocentrics, thus we need to examine how acculturation results in different patterns of individualism and collectivism in each society.

In anthropological studies of African societies it has been suggested that African societies are among the most collectivist, yet there are scarcely any systematic studies of self-concept that have derived relevant etic and emic values (Mpofu 1994:343). Such findings indicate significant proportions (51%) of individuals are individualistic rather than collectivist (28%). However, at the cultural-idealistic level, the self-concept was perceived as significantly collectivist. Moreover, a variation of collectivism between genders was found in that male collectivism is derived from group affiliations and female collectivism is derived from specific relationships. In a 14-country study investigating culture by gender differences in the source and level of self-esteem, it was discovered that respondents from the collectivist countries placed greater emphasis on family values as component of their self-concept than did those from individualist countries. The expected gender differences, with females valuing 'family values' and 'social relationships' more highly, were found only for individualist countries. Past research has indicated that women, older people, and less educated people tend to be more collectivist and less individualistic (Watkins *et al.* 1998).

In exploring the relationship between attitudes towards growth, gender, and business size, Cliff (1998:524) found that female entrepreneurs are more likely to establish maximum business size thresholds beyond which they would prefer not to expand. For female entrepreneurs personal considerations tend to override economic considerations in business expansion decisions.

Although Africa is largely characterised as a collectivist nation, there is a school of thought that believes that capitalism was practised in Africa long before colonisation; the amount of cattle possessed was the barometer for measuring an individual's wealth. Whereas a second school of thought argues that socialism has been part of Africa because it is a collectivist society. Factors that have been identified as limiting entrepreneurial activities in sub-Saharan Africa are power distance and collectivism (Takyi-Asiedu 1993).

A concept like Ubuntu (with an element of high community involvement) is in conflict with individualism yet differs from collectivism, where the rights of the individual are subjugated to a common good.

The African version of collective interdependence does not extend as far as the Japanese model, where the individual largely ceases to exist, instead individuality is reinforced through community (McFarlin, Coster & Mogale 1999).

Corder (2001) proposes that individualism and collectivism are poles of a continuum within which African humanism falls. Moreover, there has been an emerging emphasis in describing I-C in terms of a specific reference group and context rather than society at large. A misconception from this is that collectivism is synonymous with communitarianism and that all collectivists are harmonious and homogeneous (Earley & Gibson 1998).

A study that was successful in demonstrating that cognitive scripts explain a significant amount of variance in venture creation decisions (Mitchell, Smith, Seawright & Morse 2000:986) finds at least some cultural values being related to certain of these scripts, and in some cases cultural values also moderating the cognition-venture creation decision relationship. Because perceptions and cognitions depend on information that is sampled from the environment and are fundamentally psychological processes, culture-influenced sampled information is important as cultures develop conventions for sampling information (Triandis & Su 2002:136). Nonetheless, in world business there is a growing tendency for tariffs, and technological advantage to wear off, which automatically shifts competition toward cultural advantages or disadvantages.

Practically such findings suggest that cross-cultural differences may not be as pronounced as previously thought, and similarities across cultures may in fact be driving globalisation. This line of reasoning concurs with Levitt's (1983) premise that world markets are being driven toward a 'converging commonality'. Conversely Hofstede (2001) declares there is no evidence that the cultures of present-day generations from different countries are converging. Similarly, voices in the marketing literature express doubts about this illusory worldwide convergence of consumers. This is validated by evidence in Hofstede's work, indicating no convergence of cultural values over time, except for increased individualism for countries having become richer.

Yet it must be recognised that cultures are no longer insular. Transnational interdependencies and global economic forces are disintegrating social and cultural normative systems. In addition mass migration of people are altering cultural landscapes, this growing ethnic diversity accords functional value to bi-cultural efficacy to navigate demands of both one's ethnic subculture and that of the larger society. Issues of interest now centre on how national and global forces interact to shape nature of cultural life (Bandura 2001).

The effect of cultural values can also be seen in a broader sense; if a society does not provide sufficient jobs for certain ethnic groups, for example new immigrants, those ethnic groups that are higher in individualistic values will be more prone to found their own venture. It has also been suggested that local

entrepreneurs are socialised in the ways of indigenous populace and thus may display the broad-based values of the society in which they live (Steensma, Marino, & Weaver 2000). To reiterate, cultural values may be a source of competitive advantage for some societies.

## 7.8 Entrepreneurial archetype in different cultures

Seeking to answer the question of whether entrepreneurs are the same across cultures, i.e. 'the applicability of existing entrepreneurial archetype in different cultures', Thomas and Mueller (2000) examine the relationship between culture and four personality characteristics commonly associated with entrepreneurial motivation. To determine whether the entrepreneurial traits profile is applicable to other cultures or is bounded by ethnocentric bias, they measured the degree to which these four entrepreneurial characteristics are prevalent in other cultural settings. More specifically they examined the systematic variation in the frequency of entrepreneurial traits from the 'ideal' entrepreneurial profile, i.e. U.S. model. They found that three traits associated with entrepreneurial potential, i.e. internal locus of control, moderate risk taking propensity, and high energy level decrease in frequency as cultural distance from the U.S. increases. This study reveals that people reflect dominant values of national culture, thus they might share some universal traits, but others are more culture-specific.

A tentative conclusion from Mueller and Thomas' (2000) study, examining the relationship between Hofstede's cultural dimensions and two psychological traits (locus of control and innovativeness) associated with entrepreneurship, is that a supportive culture increases, *ceteris paribus*, the entrepreneurial potential of a country. Many factors underlying entrepreneurial behaviour are common across cultures; e.g. economic incentives serve as motivators in all cultures. However because culture reinforces some personal characteristics and penalises others, we could expect some cultures to be more closely aligned with an EO than others (Mueller & Thomas 2000: 59).

In the case of cultural distance – as utilised by Thomas and Mueller (2000) – presumably measuring the extent to which different cultures are similar and different, the distance metaphor is translated into a focus on what sets cultures apart. It can be argued that with substantial distance in culture that same factor structure will occur universally, i.e. that cultural distance reflects differences in language, socioeconomic level, family structure, religion, and values (Triandis 1994).

On this topic of cultural distance, some researches argue that cultural diversity is defined by the significance of the cultural distances between existing cultures instead of the number of different cultural groups (Rijamampianina & Maxwell 2002), i.e. significant cultural distances indicate the existence of a multicultural group. Asking if cultural differences are overrated, Markoczy (2000) suggests that while culture might influence general values it does not pervade all



aspects of individual beliefs. Shane *et al.* (1991) demonstrate that there are no universal reasons leading to new business formation across gender and national boundaries. In their three-country survey, out of 13 factors only one – freedom to adapt one's own approach to work – can apply across countries and genders.

A balanced analysis would however consider both opening and closing mechanisms i.e. what sets cultures apart and what brings cultures together. Some key mechanisms with the potential of closing cultural distance are globalisation and convergence, acculturation, and cultural attractiveness (Shenkar 2001).

Additional research by McGrath and MacMillan (1992), pertaining to the dilemma whether entrepreneurs across various cultures are more similar to each other than to counterparts in their own countries, finds entrepreneurs share a predictable set of values different from non-entrepreneurs. They stressed that out-group beliefs and deviant behaviour sometimes transcends cultures. However, their data could not test the relationship between the basic set of universal beliefs (from the perspective of entrepreneurs) to new venture creation. In a different article, McGrath *et al.* (1992) focus on the malleability of culture by uncovering where culture predominates and where ideology predominates. Their results indicate that along the I-C dimension, collectivist values are highly enduring. In contrast, for power distance results indicate more malleability and that it can shift in the face of ideological pressures. Uncertainty avoidance does not appear to have moved in the direction of a western model, and 'work to live' is not easily replaced by a 'live to work' attitude. Developmental policies that assume individualistic values can be infused into a collectivist culture, could be compromised by the intractability of collectivist values as signaled by such findings (McGrath *et al.* 1992:442).

In a separate study McGrath, MacMillan, and Scheinberg (1992) found a reasonable degree of support for the idea that entrepreneurs share a predictable set of values, when compared with non-entrepreneurs. At a macro level, their study suggests that culture may have a predictable relation with proclivity to start new ventures.

Results from Thomas and Bendixen's (2000) study indicate considerable similarity in values, as measured by Hofstede's Value Survey Module (VSM) instrument, across various ethnic groups in South Africa; they conclude that an effective management culture is independent of ethnic group. A surprising result from their study, when compared to the original Hermes studies, is the high I-C score, which contradicts many African collectivism theorists. Contradictingly, Eaton and Louw (2000) in their study of cross cultural differences (South African sample) in self concepts, found that African students used a higher proportion of specific and social responses when describing themselves than did English speaking students. This confirms the collectivism assumption, and in general their research illustrates the usefulness and applicability of such theories in the African context. Nonetheless, the authors did recognise that both their groups were heterogeneous in terms of ethnic, religious, and cultural heritage, and a

validated measure of cultural orientation for use with many different cultures in South Africa is required.

It has been argued that since researchers use the terms 'culture' and 'nation' interchangeably, the majority of cross-cultural studies tend to be cross-national studies that are confounded with the influence of the national environment. Compared with the cultural effect, the national effect is more influential on entrepreneurs' perception of environment and strategic orientations. On the other hand, despite the diversity in national context, mainland Chinese entrepreneurs share certain similarities with entrepreneurs elsewhere, thus supporting the notion of the universal entrepreneur (Tan 2002).

## 7.9 Culture as a moderator of entrepreneurship

Despite the lack of attention for within-culture, individual differences remain. With research focused on country level, psychological characteristics fail in scrutinising the link between individual and country characteristics, as well as in addressing questions as to the identity of characteristics at individual and country level (e.g. is UAI the same at both levels?) and their interactions (e.g. what is the difference between being a collectivist in an individualist and a collectivist country?) (Van de Vijver & Leung 2001:1023). Such findings suggest it is necessary to distinguish between related value and belief dimensions at both cultural and individual levels (Church & Lonner 1998).

Most studies reviewed under this section used national affiliation, but the existing and increasing cultural diversity of many nations make this strategy unsatisfactory. However, if researchers include measures of the salient values and ethnic identities of the samples they study, comparisons with other studies that have more established theoretical roots might be made (Bond & Smith 1996).

As previously mentioned, Hofstede's indices are based on country level, not individual level intercorrelations, nevertheless they yield statistically significant differences when males and females are contrasted or when entrepreneurs and non-entrepreneurs are compared. An analysis on the individual level also reveals a reasonably strong relationship between values and beliefs on the one hand, and entrepreneurial intentions on the other (Davidsson & Wiklund 1997).

Conceptual arguments for the link between culture and entrepreneurship have existed for decades (Schumpeter 1947; Weber 1948; McClelland 1961). However the results of empirical research have been mixed. Some studies suggest entrepreneurs share a common set of values regardless of culture (McGrath, MacMillan, & Scheinberg 1992), while other studies support the notion that culture will affect entrepreneurship (Busenitz & Lau 1996; Shane 1994).

Depicting a model of cultures' association with entrepreneurship, Hayton, George, Zahra (2002:46) provide a broad overview of the potential pattern of relationships between national culture, contextual factors, and entrepreneurial outcomes. Culture is depicted as a moderator in the relationship between

contextual factors (institutional and economic) and entrepreneurial outcomes. This suggests that culture acts as a catalyst rather than a causal agent of entrepreneurial outcomes. This line of thinking is exemplified in a recent study demonstrating the moderating effect of culture on the relationship between entrepreneurial orientation and strategic alliance portfolio extensiveness (Marino *et al.* 2002). Their study confirms that a firm's ability to leverage its entrepreneurial orientation by an extensive strategic alliance portfolio is discouraged by two aspects of a firm's national culture; masculinity and individualism.

See tables 7.1 and 7.2 for a consolidation of studies of national culture and entrepreneurship at the national level and characteristics of entrepreneurs.

**TABLE 7.1:** Studies of national culture and entrepreneurship at the country level  
*Source: Hayton, George, and Zahra (2002:36)*

Authors	Research question	Measures of national culture	Sample	Data source(s)	Major findings
Shane (1992)	What is the association between national culture and national rates of innovation?	Individualism, power-distance (Hofstede, 1980)	33 countries	Cultural values based on Hofstede's (1980) results and compared with per capita rates of innovation in 1967, 1971, 1976, and 1980.	National rates of innovation are positively correlated with individualism and power distance.
Shane (1993)	What effect does national culture have on national rates of innovation?	Individualism, power-distance, uncertainty avoidance, and masculinity (Hofstede, 1980)	33 countries	Cultural values based on Hofstede's (1980) results and compared with per capita rates of innovation in 1975 and 1980.	National rates of innovation are positively correlated with individualism and negatively correlated with uncertainty avoidance and power distance.

*continues over*

Authors	Research question	Measures of national culture	Sample	Data source(s)	Major findings
Davidson (1995)	What is the interaction among structural characteristics, culture, beliefs concerning entrepreneurship, and entrepreneurial intentions?	<ul style="list-style-type: none"> <li>• An entrepreneurial values index that includes dimensions such as achievement motivation, locus of control, need for autonomy, and change orientation.</li> <li>• Entrepreneurial beliefs: Societal contribution, financial payoff, perceived risk, social status.</li> </ul>	2,200 individuals: 6 regions in Sweden	Survey (cultural values measured by survey)	Scores on the entrepreneurial values index are correlated with regional rates of new-firm formation.
Davidson & Wiklund (1995)	Controlling for economic/ structural factors, is culture associated with differences in rates of new-firm formation?	<ul style="list-style-type: none"> <li>• Values: Change orientation, need for achievement, need for autonomy, Jante-mentality competitiveness</li> <li>• Beliefs: Societal contribution, financial payoff, perceived risk, social status, workload, know-how.</li> </ul>	1,131 individuals: 6 regions in Sweden	Survey (cultural values measured by survey)	Cultural values and beliefs have a small but statistically significant association with regional rates of new-firm formation.

**TABLE 7.2: Studies of national culture and characteristics of entrepreneurs**  
*Source: Hayton, George, and Zahra (2002:38-39)*

Authors	Research question	Measures of national culture	Sample	Data source(s)	Major findings
Scheinberg & MacMillan (1988)	Are the motives of entrepreneurs to start a business similar or different across cultures?	Nationality	1,402 entrepreneurs: 1 country	Survey (culture measured in survey)	Indicators of motive represent six dimensions: need for approval, perceived instrumentality of wealth, communitarianism, need for personal development, need for independence, and need for escape. The importance of these motives varies systematically across cultures.
Shane, Kolvereid, & Westhead (1991)	Are there significant differences across culture and/or gender in reasons given for business start-up?	Nationality	597 entrepreneurs: 3 countries	Survey (culture inferred from nationality)	Reasons for starting a business reflect four underlying dimensions: recognition of achievement, independence from others, learning and development, and roles. The emphasis on each of these reasons varies systematically across countries.

*continues over*

Authors	Research question	Measures of national culture	Sample	Data source(s)	Major findings
McGrath & MacMillan (1992)	Across cultures, do entrepreneurs share common perceptions about non-entrepreneurs?	Three cultural regions: Anglo, Chinese, Nordic	770 entrepreneurs: 14 countries	Survey (culture measured in survey)	Across diverse cultures there is a common set of perceptions held by entrepreneurs about non-entrepreneurs.
McGrath <i>et al.</i> (1992b)	Is there a set of values that is held by entrepreneurs vs. non-entrepreneurs across cultures?	Power-distance, individualism, uncertainty avoidance, masculinity-femininity.	1,217 entrepreneurs, 1206 non-entrepreneurs: 9 countries	Survey (culture measured in survey)	Across cultures, entrepreneurs score high in power-distance, individualism, and masculinity and low in uncertainty avoidance.
Baum <i>et al.</i> (1993)	Does national culture moderate the association between individual needs and chosen work role (entrepreneur vs. manager)?	Nationality	370 Israeli and US entrepreneurs and managers	Survey (culture inferred from nationality)	Israeli entrepreneurs report higher need for achievement and affiliation and lower need for dominance than do Israeli managers. US entrepreneurs do not differ significantly from US managers.
Mitchell, Smith, Seawright, & Morse (2000)	Does the presence of cognitive scripts associated with venture creation decisions vary significantly across cultures?	Individualism, power-distance	753 entrepreneurs and non-entrepreneurs: 7 countries	Survey (culture inferred from nationality)	Individual and power-distance are associated with entrepreneurial cognitive scripts and the venture creation decisions.

*continues over*

Authors	Research question	Measures of national culture	Sample	Data source(s)	Major findings
Mueller & Thomas (2000)	Do entrepreneurial traits vary systematically across cultures?	Individualism, uncertainty avoidance	1,790 students: 9 countries	Survey (culture inferred from nationality)	Cultures high in individualism are correlated with an internal locus of control. Cultures high in individualism and low in uncertainty avoidance rate highest on a measure of entrepreneurial orientation (innovativeness plus internal locus of control).
Thomas & Mueller (2000)	How prevalent are four key entrepreneurial traits (innovativeness, locus of control, risk taking, energy) across cultures?	Power-distance, uncertainty avoidance, individualism, masculinity	1,790 students: 9 countries	Survey (culture inferred from nationality)	Entrepreneurial traits (internal locus of control, risk taking, high energy levels) decrease as cultural distance from the US increases.

## 7.10 Conclusion

Different views of culture are initially described and culture is conceptualised as a set of characteristics, common to a particular group of people. Culture is also referred to as having both objective and subjective aspects of man-made elements, and as the collective programming of the human mind. Broadly speaking conceptual arguments for the link between culture and entrepreneurship have existed for decades, with some studies suggesting entrepreneurs share a common set of values regardless of culture, while other studies support the notion that culture will affect entrepreneurship.

The point is made that the aggregate level of entrepreneurial activity in any country is uncertain and heavily influenced by cultural traits, for instance there is a significant difference among entrepreneurial rates of different groups, which

may occur in spite of relatively similar institutions. To determine whether an entrepreneurial profile is applicable to other cultures or is bounded by ethnocentric bias, several studies of entrepreneurial characteristics are examined in different cultural settings. More specifically, the systematic variation of entrepreneurial behaviour insofar as it deviates from the accepted cultural norm – US model – was investigated. Research findings indicate a reasonable degree of support for the idea that entrepreneurs share a predictable set of values, when compared with non-entrepreneurs. At a macro level, their study suggests that culture may have a predictable relation with proclivity to start new ventures. In reviewing studies that relate cultural variables to national levels of small business development, data does not unequivocally support the US image as the ‘individualist home of the entrepreneur’. Based on such mixed results, it is recommended that researchers move beyond ethnocentric approaches, which assume entrepreneurship is similar in different cultures, and undertake comparative studies that look for both similarities and differences.

On the whole, the diverse findings as presented in this chapter regarding the effects of culture, at different levels, on entrepreneurship are best interpreted when the association between national culture and entrepreneurship at aggregate country level show potential patterns of relationships between different national cultures, contextual factors, and entrepreneurial outcomes. Culture is depicted as a moderator of the relationship between contextual factors (institutional and economic) and entrepreneurial outcomes. This suggests that culture acts as a catalyst rather than a causal agent of entrepreneurial outcomes.

It could be argued that to attempt to integrate the concept of culture with psychological (entrepreneurial) theories is an “abstract, disputed, and inherently irresolvable process” (Cooper & Denner 1998:563), and yet doing so is critical to theory building and understanding multicultural societies. This controversy, whether historical and societal processes are responsible for creating distinct communities and situations that may render individual meanings as trivial, or what makes humans similar, is pivotal to the thesis. Trying to study entrepreneurship without insight into culture is an idle pursuit.

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