

SECTION 2: INTRODUCTION TO ENTREPRENEURSHIP

This section provides an introduction to the concept of entrepreneurship. A guide to further reading is provided at the end of each section.

2.1 CONCEPT OF ENTREPRENEURSHIP

The first record of the use of the word "entrepreneur" was in the 12th century (Strage 1986). The first known detailed definition was given by a French economist Richard Cantillon in 1730. He saw an entrepreneur as one who:

- is the bearer of a risk
- has the capacity economically to combine goods and services
- organises and supervises production
- introduces new methods, new products, and searches for new markets

The term was later expanded and several attempts have been made to define and conceptualise the entrepreneur. Definitions may be classified into two broad groups: firstly, the economic and, secondly, the psychological and sociological.

The 18th century economist Adam Smith viewed an entrepreneur as no more than a provider of capital. Another writer, J.B. Say not long after provided perhaps the best known economic definition of the entrepreneur, as an agent for combining land, labour and capital. The special role of the entrepreneur was highlighted by J.A. Schumpeter, who, writing in 1934, introduced the concept of the entrepreneur as the creator of "new combinations", bringing about change. Schumpeter also considered the psyche of the entrepreneur, and suggested that entrepreneurs are motivated primarily by three possibilities: the dream and will to found a private "kingdom", the will to conquer and the joy of creating, and not mainly by economic reward. He says that they view such financial gain as they may reap as a measure of their success.

Various attempts have followed Schumpeter's work to explain entrepreneurial behaviour in both psychological and sociological terms. These include Max Weber, who offered one of the first non-economic explanations of economic behaviour (see Kilby and Young).

An important and influential view of the psychological process leading to entrepreneurship was presented by David McClelland in a book entitled "The Achieving Society". Concerned with explaining economic growth and in particular why some countries do better than others and why the same country may do better or worse in different times, McClelland rejected the idea that economic development was mainly caused by exogenous factors such as material resources, race and climate. Rather, he saw economic growth resulting from the activities of individuals. The importance of McClelland's work is the introduction of a further link between the individual and economic growth in the form of a psychological motive - the need to achieve. McClelland's hypothesis, which he later tested, was simple: a high need for achievement would cause individuals to behave in an entrepreneurial way and thus increase economic development.

While McClelland's work has been recognised as comprehensive and well-researched with a contribution to make to policy development, criticisms

have been made concerning the validity of the methods employed and the presumed link between the need for achievement and entrepreneurship. In spite of the criticism, however, the need for achievement motivation has been often accepted as necessary and sometimes even sufficient for entrepreneurial activity.

Later studies, funded by USAID and undertaken by McBer and Company and Management Systems International, have focused on types of actual behaviour rather than on motivation. Research to substantiate this approach is still in progress, and the results have not yet been published, but it appears to have great potential as a basis both for identifying entrepreneurs and for entrepreneurship development training.

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2.2 ENTREPRENEURIAL CHARACTERISTICS

McClelland's work has had a major effect not only on entrepreneurship development programmes to be found today but also on subsequent studies on entrepreneurship. While there has been little consensus on the characteristics of the entrepreneur, most of the attempts made to establish these characteristics have included, in one form or the other, the need for achievement.

Below is a list of entrepreneurial traits thought to be important for successful enterprise, derived from various sources and commonly cited in the literature:

Important Entrepreneurial Characteristics

- The need for achievement
- Internal locus of control (in which the individual is defined as being "dependent on internal reinforcement; therefore, more self-reliant, desirous of independence and autonomy")
- Energy
- Initiative seeking
- Risk taking
- Responsibility seeking
- Positive self-concept
- Problem solving
- Resourcefulness
- Innovation and creativity
- Independence
- Leadership
- Optimism
- Searching Environment

The USAID-funded research mentioned earlier has identified fourteen personal entrepreneurial characteristics, (PEC's) which appear to characterise the behaviour of successful entrepreneurs in India, Malawi and Ecuador. These can be summarised as follows:

- (1) Takes initiative.
- (2) Sees and acts on opportunities.
- (3) Is persistent.
- (4) Personally seeks information.
- (5) Is concerned for high quality.
- (6) Is committed to fulfilling contracts.
- (7) Is oriented to efficiency.
- (8) Plans systematically.
- (9) Solves problems in original ways.

- (10) Demonstrates self-confidence.
- (11) Takes calculated risks.
- (12) Is assertive.
- (13) Is persuasive.
- (14) Uses influence strategies.

These are not fundamentally different from the earlier lists, but they are firmly based on observed behaviour, rather than on less direct concepts of personal attributes, qualities or motivation.

Unlike much previous work in this field, the research was directed not at the differences between people who do and do not start businesses, but at behaviours which distinguish between those who are successful at starting and maintaining their businesses and those who are not.

These lists are by no means exhaustive. While the literature identifies over fifty traits, the three traits most widely accepted as essential for successful entrepreneurship are: a high need for achievement, an inner locus of control and high energy.

2.3 NEW ENTERPRISE FORMATION

Although there is no universal consensus on the characteristics required, there is wide acceptance that the entrepreneur is crucial in new enterprise (or business) formation. Consequently, much effort has gone into identifying and selecting the entrepreneur, into stimulating entrepreneurship and investigating the sequence of events which lead up to new enterprise formation. These efforts have not been confined to small business. Indeed, much effort has gone into attempts to harness entrepreneurial activities for the benefit of large organisations, both private and public.

A basic problem has been to explain how the individual arrives at the situation of starting a business. Three major expositions deserve mention here, namely: the displacement event, the credible example and the possession of the necessary entrepreneurial traits.

The displacement of the entrepreneur arises from a sequence of events which result in his being in a position to want to, or have to, set up in business. The immediate manifestation of this could be: losing his job or, in the case of a new immigrant or member of a minority group, being unable to find a suitable job because of language difficulties or racial prejudice. Other examples include the returning expatriate who has enjoyed rewards and status abroad not available in the home country, the intellectually-gifted manual worker and, importantly, what has been referred to as "the emigration of frustrated men from corporations".

The role of the "credible example" is best illustrated by the occupation of the parents of the incipient entrepreneur. Research indicates that twenty-five per cent of entrepreneurs' fathers were the owners of small businesses and that, if farmers and the independent professional are considered as small business owners, this figure rises to fifty-four per

cent. Credibility as a motivational impetus, however, is not confined solely to families, but obtains also amongst peers and friends. Thus, for example, one of the reasons cited for the development of 'Silicon Valley' in the U.S. is the example provided by engineers leaving large organisations to establish successfully their own. The role of the credible example would also appear to explain why entrepreneurship is highly identified with certain ethnic and national groups, for example, Jews, Lebanese and Gujaratis in India.

A combination of credibility, example and displacement would clearly provide a powerful impetus to business formation. However, the extent to which an individual possesses the necessary entrepreneurial characteristics could be a major factor.

As previously noted, the three traits most widely accepted as essential are: the need for achievement, an inner locus of control and high energy. In addition to these, skills of a more formal management nature may be required for the entrepreneur to cope with the problems not only of establishing but also running a new business.

Valid as these are, they are unlikely to be sufficient for new business start-ups without the presence of adequate infrastructure, notably capital, labour, materials, equipment and information. Lack of support structures and government commitments, and adverse policies are likely to hinder the growth of small businesses. Thus, to understand how businesses arise, the complex interrelations between the parties (entrepreneur, institutions and government) and the variables (entrepreneurial traits, project ideas, managerial skills, finance and infrastructure) need to be examined.

This aspect is best illustrated by two models - Exhibits 1 and 2 - presented by Neck (1977) and Gibb (1983) respectively. The key feature of both models lies in linking remedial activities together to provide a co-ordinated development effort, rather than emphasising the contributions of individual inputs - a point that will be highlighted again in the review of issues surrounding Institution Development (below, page 28).

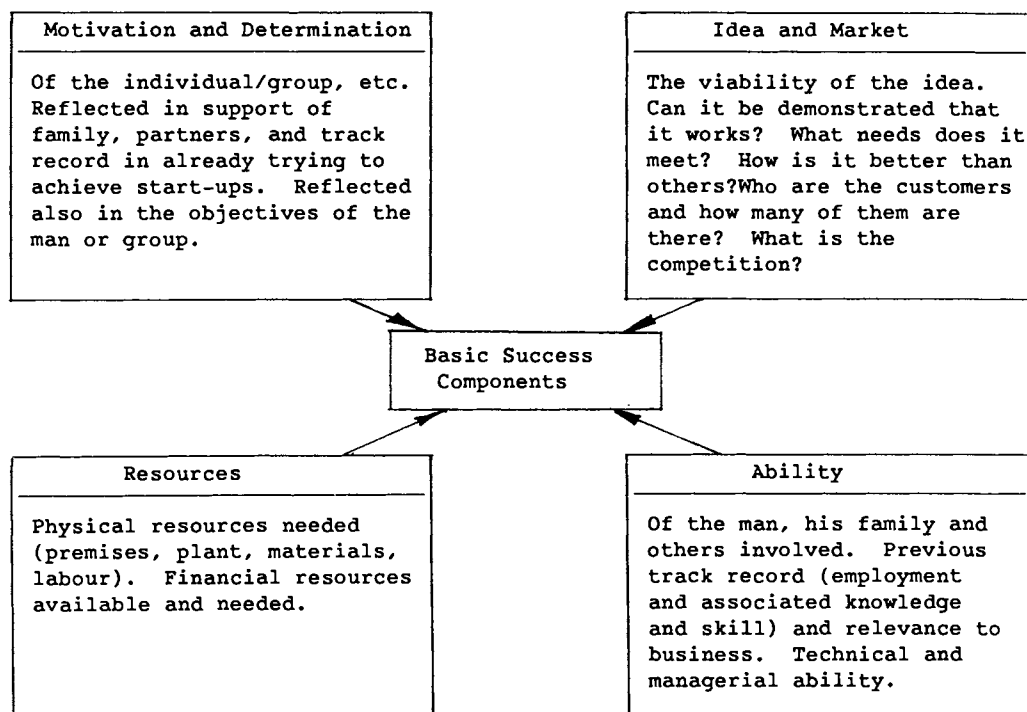
EXHIBIT 1 THE TWO-STEP MODEL FOR SMALL ENTERPRISE DEVELOPMENT

SOURCE: NECK, P. (ED.) (1977)

Prime Factors	Diagnostic phase (analysis of)	Remedial activity (development of)
I Host	Training needs of managers and workers	Programmes to provide the appropriate - skill - knowledge - attitudes
II Agent	Activities and relationships of structures providing assistance	Suitable institutions to provide assistance in matters - financial - technological - managerial - developmental
III Environment	Appropriateness of existing elements such as infrastructure, legislation, access to raw materials, information, markets, labour and sources of finance	Appropriate policies and support

EXHIBIT 2 KEY COMPONENTS IN THE SUCCESSFUL DEVELOPMENT OF A NEW SMALL BUSINESS

SOURCE: GIBB, A.A. (1983)



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