Chapter 1: The Entrepreneur: concepts and evidence

At the end of the chapter you should be able to:

- Describe the main theories and concepts of the entrepreneur
- Compare and contrast different theories on the role of the entrepreneur
- Describe the process of entrepreneurship and discuss influences on that process
- Describe some of the problems and limitations of research into the personality of the entrepreneur
- Discuss the social and environmental factors that influence the extent of entrepreneurship
- Describe the role of entrepreneurial capital in the process of entrepreneurship

Question for discussion: Are entrepreneurs born or made?

This section will provide answers to ‘what makes an entrepreneur?’

There are THREE approaches to entrepreneurship:

1. **The contributions of economic writers and theorists on the role of the entrepreneur in economic development and the application of economic theory.**

   In mainstream or neoclassical economic theory, the entrepreneur can be viewed as someone who co-ordinates different factors of production, though this role is viewed as a non-important one (except if he puts out the capital to enable production to take place). The entrepreneur is a risk-taker, the reward being the ability to appropriate profits.

   The important contributions of small and medium sized enterprise (SME) are for economic development and job creation.

   Entrepreneur (French in origin) literally means as ‘one who takes between’.

   These are the views of major writers on the role of entrepreneur:

   a) Cantillon (French) was first to recognize the crucial role of the entrepreneur in economic development. Entrepreneurs were the important class in the society and were the central economic actors (two other classes are the landowners and workers). Entrepreneur is seen as being crucial to economic development and a catalyst for dynamic change.

   b) Say (French) – entrepreneur is the pivot of the economy and a catalyst for economic change and development. Entrepreneur is seen as someone willing to take the risk of bringing different factors of production together.
c) Kirzner (Austrian) – Entrepreneur is someone who is alert to profitable opportunities for exchange. By recognizing opportunities, the entrepreneur benefits by acting as a ‘middleman’ who facilitate the exchange. The Kirznerian entrepreneur is alert to opportunities for trade. He/She is able to identify suppliers and customers and act as the intermediary. Note that there is no necessity to won resources and that profit arises out of the intermediary function. These possibilities for profitable exchange exist because of imperfect knowledge.

The information is costless – it arises when someone notices an opportunity, which may have been available all the time. Still, it takes someone with additional knowledge to recognize and exploit the opportunity.

Kirznerian entrepreneur is someone who has the information and who is creative. The possession of additional knowledge provides opportunities for creative discoveries. Anyone could have this.

d) Schumpeter (Austrian) – Entrepreneur is a special person. The Schumpeterian entrepreneur is an innovator. The entrepreneur brings about change through the introduction of new technological processes or products. For Schumpeter, only certain extraordinary people have the ability to be entrepreneurs – they change technological possibilities, alter convention through innovative activity and, hence, moves production possibilities. Schumpeter’s entrepreneurs develop new technology while Kirznerian entrepreneur operates on opportunities that arise out of new technology.

Curran and Stanworth:

“Entrepreneurship refers to the creation of a new economic entity centered on a novel product or service or, at the very least, one which differs significantly from products or services offered elsewhere in the market.”

e) Knight – Entrepreneur is an individual who is prepared to undertake risk and the reward – profit – is the return for bearing uncertainty, which is an uninsurable risk. The entrepreneur is someone who is prepared to undertake risk in an uncertain world.

Risk exists when we have uncertain outcomes, but those outcomes can be predicted with a certain degree of probability. For instance, the outcome that your car will be stolen or not stolen is uncertain, but the risk that your car will be stolen can be calculated with some degree of probability and its risk can be insured against. True uncertainty arises when the probability of outcomes cannot be calculated. An entrepreneur then is someone who is willing to accept the remaining risk that cannot be transferred through insurance.

The entrepreneur is someone who has the confidence and is venturesome enough to make judgments about the uncertain future and reward (profit).

f) Sackle – entrepreneur is someone who is creative and imaginative. Whereas Kirzner’s entrepreneur perceives opportunities, Sackle’s imagines opportunities. Everyone potentially has this creative ability, which is exercised in making choices.

Uncertainty gives rise to opportunities for certain individuals to imagine opportunities for profit. Shacke’s entrepreneur is creative and original. Creativity is an important element in the entrepreneurship process.
g) Casson – entrepreneur will have different skills from others. These skills enable the entrepreneur to make judgments, to coordinate scarce resources. The entrepreneur makes judgmental decisions that involve the reallocation or organization of resources. In Casson’s definition, lack of financial capital would be a barrier to successful entrepreneurship.

In Casson’s view, the supply of entrepreneurs depends on their access to resources and thus depends on the local economy and environment. Casson’s point is that access to resources would appear to be an important one.

h) Thunen – the entrepreneur is also concerned with innovation and problem-solving.

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Possible quiz question: Discuss the entrepreneur is a key actor in the economy.

The approach of economic writers to entrepreneurship is as being concerned with what happens when entrepreneurs act, or with the results and consequences of entrepreneurship, whereas the psychological characteristics approach is concerned with how entrepreneurs act, or with the study of entrepreneurial management.

2. The psychological trait approach on personality characteristics of the entrepreneur

This approach is to identify certain personality characteristics or ‘traits’ in individuals that appear to be possessed by successful entrepreneurs.

McClelland:

Proposed key competencies of successful entrepreneurs

- Proactivity: initiative and assertiveness
- Achievement orientation: ability to see and act on opportunities
- Commitment to others.

Key characteristics of the entrepreneurial personality:
○ McClelland’s need for achievement – the key characteristic is achievement motivation, or a high need for achievement, which can be described as a desire to excel, to achieve a goal in relation to a set of standards. Satisfaction is gained from finding the solution to a problem rather than with monetary reward. There is a need to build and achieve personally set goals. Ambitious.

○ Calculated risk taker or takes risk-taking activity

○ High internal locus of control (who controls your behavior?) – this person will likely be in charge of their environment and of their own destiny.

○ Creativity and Innovative – ability to deal with change and the ability to cope with new processes and solutions.

○ Need for autonomy or strong desire to be independent. A more negative characteristic is that of the deviant (non-conformist) personality. A deviant character is associated with individuals who do not easily fit in with their existing employment – for instance someone who is out of place in a large firm

○ Ambiguity tolerance

○ Vision or conceptual ability

○ Self-efficacy or self-confident – a person’s believe in their own competence to mobilize resources, motivate others and produce change (business start-ups).

○ Flexibility or high energy coupled with emotional stability

○ Capacity to inspire

*Question for discussion: Which among these characteristics do you think is the most crucial for an entrepreneur to have? Why?*

Some **CRITICISMS** of the personality characteristic approach:

○ It is inappropriate to search for a significant single trait.

○ It ignores environmental and cultural factors that may be more important than personality.

○ It comprises an essentially static analysis approach to the dynamic process of entrepreneurship. Characteristics are not stable and change over time.

○ It ignores the role of learning, preparation and serendipity (happy accidents or pleasant surprises) in the process of entrepreneurship.

○ Placing too much importance on inherent set of personality characteristics reduces the role of education and training. Learning is a process that allows potential entrepreneurs to acquire skills and to develop methods of business planning.

3. A social-behavioral approach, which stresses the influence of the social environment as well as personality traits.

   It can be argued that a society’s **culture** is more powerful influence on the extent to which individuals can successfully pursue entrepreneurship.

   a) **Ability to tolerate failure** – does the culture view failure as a learning experience where people can benefit from it, can learn from their experience and can go on to form successful companies as a result?
b) The influence of the environment: different entrepreneurship participation rates.

The Asian community has higher rates of participation in small business ownership and entrepreneurship, but this had more to do with negative factors of barriers to employment elsewhere than any predisposition for entrepreneurship.

Entrepreneurial participation rates vary

- Some regions are more favoured than others at establishing successful small businesses and entrepreneurs, and hence their economic development is more successful. (Different participation rates in different regions) It's possible that it is due to certain aspects of the environment and infrastructure that enable potential entrepreneurs to exploit their skills and opportunities more. Dependency culture – people are used to depending on large firms for employment. Difficulty in accessing finance.

- Concern has been addressed at the existence of latent entrepreneurial talent. (Different participation rates by gender) Why are there relatively few female successful entrepreneurs?

- Attention has focused on the role of networks in successful entrepreneurial development. (Active inter-firm networks vary by region) Some research suggests that inter-firm networks contribute to successful entrepreneurship.

c) The role of social capital

Social capital refers to the ability of the entrepreneurs to draw on resources from their social networks, or the ability to use resources from social exchange. Networks include family, community and organizational business networks such as local business clubs and business forums.

Its role in ethnic minority businesses – strong ties with family and their local ethnic communities, partly because of cultural factors (place high value on family and community ties) and because, as a minority immigrant group within a host society exclusion tends to increase the strength of community bonding.

Davidsson and Honig write:

“Bonding social capital based on strong ties, such as having parents who owned businesses or close friends who owned businesses, was a good predictor in differentiating those engaged in nascent (emerging; just coming out) entrepreneurship from the control population, as was active encouragement from family and friends.”

d) The ability to learn

There is learning experience from merely establishing a new enterprise. In recent years, there is an introduction of more mentoring-style assistance.

There is little evidence of a link between formal training and improved performance of small firms, indicating that formal personal management development and training of the entrepreneur appears, paradoxically, to have no impact on improved performance.

Gibbs: Learning better from experience implies bringing knowledge, skills, values and attitudes together to interact upon the learning process; it therefore fundamentally demands an action-learning approach.”
Entrepreneurship involves a learning process, an ability to cope with problems and to learn from those problems. An ability to recognize why problems occur, to be able to deal with them and, more importantly, understand why they occur, will ensure that the entrepreneur will be able not only to deal with those problems, but also to learn from the experience and ensure that processes are put in place within the firm to ensure that either the problem does not occur again or that the firm can deal with the problem.

This ability to learn from experience involves the concept of double-loop learning, a process that involves examining why the problem occurred and to learn from that process. It is a process of learning ‘how to learn’.


To be successful, the entrepreneurs must be able to learn from decisions, from mistakes, from experience and from their networks.

Learn from successful entrepreneurs. Read their life stories.

Risk Management

A successful entrepreneur is someone who can minimize risks either through the limitation of his or her financial stake or by reducing the degree of uncertainty, so that they can be calculated accurately and decisions can be made with more reliability.

Entrepreneurs would like to know what their potential market is, who their competitors are and what strategy would be best in the marketplace. By assessing different risks in the process of production, which includes buying materials and supplies and assessing risks in the market, the entrepreneur engages in uncertainty-reducing behavior that will maximize his or her probability of success.

Case (p. 22)

Extra miler: read on the other theories on entrepreneurship