Theories of Entrepreneurship

Two major schools

- Supply side perspective
- Demand side perspective

Supply side perspective

- Supply side perspective
  - focuses on the individual traits of entrepreneurship
  - the dominant school of research
- The central argument of the supply-side perspective and its traits-oriented approach is that special types of individuals create entrepreneurship
- to advanced economically, this special person provides society's needs
- This special person can be changed according to psychological, social, cultural ethnic characteristics of individuals

Psychologists in supply side consider individual characteristics such as;

- Need for achievement
- locus of control
- risk taking
- problem solving styles
- willingness to innovation
- leadership styles

Sociologists consider;

- Attributes of culture
- Social class
- Ethnic group/religion
  - **Criticism**
  - Important variable like age, education, gender, work experience are not examined

Demand side perspective

- ## Opportunity structure decides the formation of entrepreneurship
- business firm/venture
- technology
- resources
- market
- Social environment

Influence of firm- examined by organizational theorists

Single unite enterprise

Small organization   low rate of entrepreneurship

multiunit enterprise

large organization   high rate of entrepreneurship

- Management style –
  Strict management
  flexible management

Influence of socio-economic environment

- Social values
- Technology
- Density of industries
- Market – liberal, closed

Theories

Theories Can be categorized as;

- Psychological theories
- Cultural theories
- Social theories
- Economic theories

Theory of Needs- David McClelland's

- Works- The Achieving Society (1961)

    Motivating Economic Achievement (1971)

- In his acquired need theory, proposed that an individual's specific needs are acquired over time and are shaped by one's life experiences.

- Most of these needs can be classed as; achievement, affiliation, and power

- A person's motivation and effectiveness in certain job functions are influenced by these three needs.

Need for achievement

- People with high need for achievement seek to excel and thus tend to avoid both low-risk and high risk situation
- Achievers avoid low-risk situations because the easily attained success is not a genuine achievement.
- In high risk projects, achievers see the outcome as one of chance rather than one's own effort.
- Achievers need regular feedback in odder to monitor the progress of their achievements.

Need for affiliation

- Those with a high need for affiliation need harmonious relationship with others and need to feel accepted by others.

- They tend to conform to the norms of their work group.

- High need affiliation individuals prefer work that provides significant personal interactions

- they perform well in customer service and client interactions situations

Need for power

- A person's need for power can be one of two types- personal and institutional
- Those who need personal power want to direct others, and this need often perceived as undesirable
- Person who need institutional power (also known as social power) want to organize the efforts of others to further goals of the organization
- Managers with a high need for institutional power tend to be more effective than those who with a high need for personal power

Characteristics of high achievers

- Desire for risk taking at given time
- Determination in achieving targets
- Desire for success
- Self feedback
- Future planning and time management
- Awareness of significance of a goal

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- When creating one's achieving mentality, personality development in childhood is important
- Mother- baby relationship (positive thinking-encourage)
- Father-baby (authority- discourage)

Psychological theories

Theory of Dynamic Personality – Daniel Lerner

Work – *The Passing of traditional Society*

- Examined facts that led to development in middle east countries
- Augment- dynamic personality creates entrepreneurship
- He used the concept of empathy to introduce the characteristics of dynamic personality
- Empathy is the internal mechanism of an individual's ability to change according to dynamic environment

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- Ability to internalize one's achievement/ success and modernize his/her personality

- This is a psychological mechanism

- It can be seen as;

Projection

introjections

Projection – building up the mind to adopt new situation, thinking of others as same

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- Introjections – accept new situation but remove the ability to adopt
- Social changed fact such as urbanization, modernization, communication, technology influence to create dynamic personality

Theory of Withdrawal of Status Respect – Everett Hagen

- Everett Hagen's argument is that certain social changes are cause of psychological changes in a group or in an individual of the society.

- When members of a given social group perceive that they are not respected by the dominant groups in society, this triggers a personality change (creativity) that encourages entrepreneurial behaviors (Dana, 1995).

- He believes that the initial condition leading to eventual-entrepreneurial behavior is the loss of status by a group of collectivity.

- According to Hagen loss of status can occur in one of the four ways-

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1. when a formerly high-status group is displaced by a new group with better technology

2. when the symbols of a social group are denigrated due to some change in attitude by the elites

3. when inconsistencies arise between the status symbols of a group and their actual economic reality (e.g., when the stories of elders reflect a more favorable past than the present

4. a lowering of status due to immigration to another society

outcomes or reactions of the loss of status

- **Retreatism**
- **Ritualism**
- **Innovation**
- **Reformism**
- **Rebellion**
- Among these reactions, retreatism is important for entrepreneurship. Because retreatism is characterized by psychological repression of the trauma associated with the status loss.

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- This psychological repression is developed by mothers in the socialization process. It goes generation to anther.
- criticism has centered on the long period of time- as much as five or more generations are required for the withdrawal of status respect to result in the emergence of entrepreneurship.

Socio-cultural theories

- Theory of prismatic society- Fred W Riggs
- Work- Administration in Developing Countries
- Argument- the nature/structure of society creates entrepreneurship
- Society nature/structure can be seen as;
1. Fused society
2. Diffracted society
3. Prismatic society

Fused society

- Bourgeoisie class rule the society
- There is no opportunity to social mobility
- Bourgeoisies are the dominant group in society
- Lack of innovation

Eg. Traditional Asian societies

Diffracted society

- This is an open society

- High Individual mobility

- Rules and regulations encourage entrepreneurs to growth

- Individual progress is evaluated

Eg. Western societies

Prismatic society

- Both fused and diffracted characteristics are consisted
- There are limited means to mobility (caste, ethnicity)
- Non bourgeoisies in society achieve mobility
- This entrepreneur introduced as, pariah entrepreneur
- Also, aristocrats in this society ten to invest
- But they utilize profit to keep their power
- Entrepreneurs are controlled, by imposing rules, regulations
- But entrepreneurs are needed to aristocrats' survive

Economic theories- Schumpeter's Theory of Innovation

- Entrepreneurship and economic development are interdependent. Economic development takes place when a country' real national income increases overall period of time wherein the role of entrepreneurs is an integral part.

- Schumpeter's theory of entrepreneurship is a pioneering work of economic development. Development in his sense, implies that carrying out of new combination of entrepreneurship is basically a creative activity.

- Schumpeter believes that **creativity or innovation** is the key factor in any entrepreneur's field of specialization.

- He argued that <u>knowledge</u> can only go a long way in helping an entrepreneur to become successful.

- He believed **development as consisting of a process which involved reformation** on various equipment's of productions, outputs, marketing and industrial organizations.

- However, Schumpeter viewed innovation along with knowledge as the main catalysts of successful entrepreneurship.

- He believed that **creativity** was necessary if an entrepreneur was to accumulate a lot of **profits** in a heavily competitive market.

The concept of innovation embraces five functions:

1. Introduction of a new good
2. Introduction of a new method of production
3. Opening of a new market
4. Conquest of a new source of supply of raw materials and
5. Carrying out of a new organization of any industry

According to Schumpeter

- Development is not an automatic process, but must be deliberately and actively promoted by some agency within the system. Schumpeter called the agent who initiates the above as entrepreneur

- He is the agent who provides economic leadership that changes the initial conditions of the economy

- By nature he is neither technician, nor a financier but he is considered an innovator

- Entrepreneurship is not a profession or a permanent occupation and therefore, it cannot formulate a social class like capitalist

Features of Schumpeter Theory

- High degree of risk and uncertainty in Schumpeterian World

- Highly motivated and talented individual

- Profit is merely an part of objectives of entrepreneurs

- Progress under capitalism is much slower than actually it is

- It is leadership rather than ownership which matters.