



Entrepreneurship and the entrepreneur

A literature review July 2017



As a field of study, entrepreneurship is a relatively young domain. Conceptual frameworks of entrepreneurship remain highly contested, while new angles of research continue to emerge. There is significant opportunity to contribute greater understanding and insights to practice, policy, and theory in this important and rapidly expanding area, particularly within the context of developing countries and emerging markets.

Beginnings

While entrepreneurship is associated with small businesses and new ventures in most cases, the introduction of the concept of entrepreneurship by the economist Joseph Schumpeter in 1934 was not limited to the small business context. In fact, the size of the business enterprise did not at all figure in Schumpeter's discussion; rather, his exposition focussed on the significance of entrepreneurship in fostering economic growth and development, and on its inherently innovative nature.

Schumpeter argued that entrepreneurs are the main agents of change in the market, and that entrepreneurs do so through the introduction of new products, the design of new methods of production,

the creation of new markets, the identification of new resources or new sources of supply, and the conception of new ways of organising businesses and industries. Indeed, the novelty of the contribution of entrepreneurs may require that markets, suppliers, and other businesses be educated to these new ways of consumption and production.

Schumpeter further suggested that entrepreneurs do not necessarily possess the necessary capital to undertake these innovations, and that entrepreneurs need to rely on mechanisms of credit in order to realise their innovations. In fact, entrepreneurs may not even necessarily possess all the market knowledge required to carry out their innovations, but must invariably possess the willingness and capacity to take risks to bring their visions to fruition.

This helps explain why research into entrepreneurship since its beginnings in 1934 has branched out into multiple spheres, thus resulting in a highly fragmented scholarly field. Existing reviews of the broad entrepreneurship literature note that related studies have emerged in the areas of strategic management, social psychology, and small business venturing and finance.

A fragmented field

In the sphere of **strategic management**, studies of entrepreneurship have typically focussed on investigations into the innovation process, including new product and new market development (both domestically and internationally). This has created a significant body of work to include studies into Silicon Valley-type start-up firms, innovation clusters, and ways to support the development of these innovative enterprises and hubs. Entrepreneurship studies in this sphere, however, have not necessarily been limited to small, start-up firms, but have also explored entrepreneurial behaviour in large organisations (i.e., strategic decisions associated with expanding to new markets and developing new products).

In the sphere of **social psychology**, studies have focussed on understanding the individual characteristics and motivations of entrepreneurs. This has likewise produced a very large and important body of literature focussed on the entrepreneur as a person with distinct qualities. These include traits such as achievement motivation, entrepreneurial orientation, creativity, and independence. Studies here have also explored specific processes associated with entrepreneurial behaviour, such as risk-taking and decision-making.

Finally, in the sphere of **small business venturing and finance**, studies have focussed on the nexus of financing or credit providers and small business entrepreneurs. This field rose out of Schumpeter's fundamental assumption that entrepreneurs have limited access to capital. This limited access to capital and other resources is typically associated with businesses of smaller scale, which may explain the association between entrepreneurship and small and medium enterprises (SMEs). Studies here have focussed on exploring the nature and characteristics of small businesses, including particular types of enterprises, for example, family businesses. Studies have also explored the realm of financing options, such as venture capitalisation, private equity investing, and angel investing, and the dynamics of the relationship between entrepreneurs and small business financiers.

Much of the study of entrepreneurship to date has been on entrepreneurs and entrepreneurship in the North American and European context. More recently, however, there has been increased interest in studying small enterprises and understanding the nature of entrepreneurship in large developing

countries such as Brazil, Russia, India, and China (or the 'BRIC' economies). This relatively new branch of entrepreneurship research includes the investigation of the role of entrepreneurial behaviour in the unique context of developing countries, where the nature of markets and cultures may be different, and where political and economic institutions may be weaker compared to the developed country context.

The highly diverse and dispersed field of entrepreneurship has made the development of integrative frameworks and theories most challenging.

A model for understanding entrepreneurship and the entrepreneur

While there is no clear and generally-accepted conceptual framework for entrepreneurship, some scholars have ventured to offer an integrative model for research in the field. One of these models proposes that "...entrepreneurship is (a set of processes) concerned with the discovery and exploitation of profitable opportunities", and attempts to distinguish between **entrepreneurship** and the **entrepreneur**.

The model proposes that entrepreneurship involves 3 main processes: the discovery of opportunities, the evaluation of these opportunities, and the exploitation of selected opportunities. Therefore, in order to understand the 3 processes of entrepreneurship, there is a need to gain insights into (1) the nature of the environment where particular opportunities reside, and (2) the nature of the enterprising individuals (i.e., entrepreneurs) who perceive these opportunities and devise ways to take advantage of these opportunities.

This proposed model effectively brings together the various spheres of entrepreneurship research that have emerged since Schumpeter's foundational 1934 work. The insight that the model provides is that it is impossible to truly understand the entrepreneur without also understanding the environment that has helped shaped him or her. Furthermore, the environment that shapes the entrepreneur is the very same environment where entrepreneurial opportunities reside.

Any effort that focuses solely on the entrepreneur without an equal examination of the entrepreneurial environment and context will necessarily offer an incomplete and limited understanding of the processes of entrepreneurship.

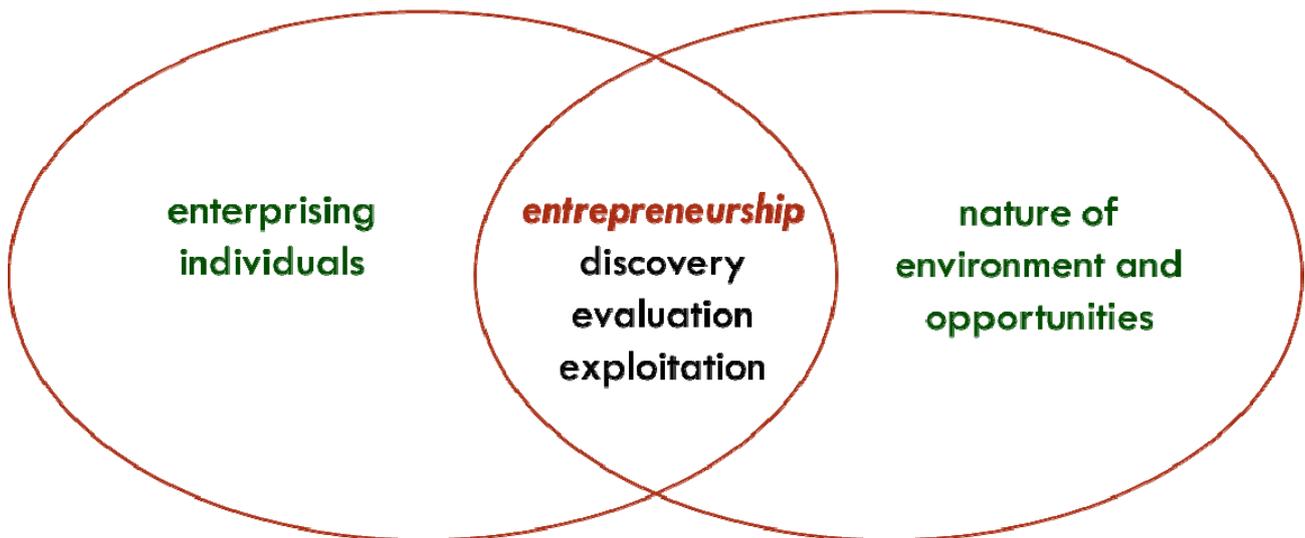


Figure 1. A model for understanding entrepreneurship and the entrepreneur

What of entrepreneurship in emerging economies?

The research area focused on entrepreneurship in emerging economies has perhaps been most successful in highlighting the importance of the environment and contextual considerations in investigating entrepreneurs and the entrepreneurship process.

Studies elsewhere have pointed out that theories and empirical findings on entrepreneurship that have been developed and tested within the context of developed economies may not always be applicable in an emerging economy.

First, the **level of economic development** in developing countries creates very different market conditions. The needs, nature and size of potential customers may be characteristically different compared to those found in more developed economies. Likewise, opportunities for new product or service development and market delivery will be different because of fundamentally different economic infrastructures.

An example of studies here is the exploration of opportunities and strategies to capture ‘bottom of the pyramid’ markets in emerging economies. These markets are large, but also have limited spending power, thus posing a challenge to enterprises – large and small alike – to come up with entrepreneurial business models that are capable of sustainably capturing value from this large market base.

The economic infrastructure in an emerging market necessarily determines the level and quality of

resources that may be available to entrepreneurs. The Internet infrastructure, for example, which is considered basic in more developed economies may be less robust in emerging markets, thus posing a possible barrier for technology-based entrepreneurial business models to thrive.

Second, the **regulatory and policy environment** in emerging markets may also be very different from that in developed economies. The institutions that entrepreneurs in developed countries depend on (for example, government agencies dedicated to implementing policy to support start-ups through tax breaks and export funding grants) may be much weaker – or indeed absent – in emerging economies. There are many studies devoted to understanding the impact of these ‘institutional voids’ on new and established businesses, which may pose either barriers or opportunities for entrepreneurial activity.

Finally, **social and cultural norms** have been fairly recently acknowledged to have a significant influence on entrepreneurial activity and entrepreneurial behaviour. As discussed above, the entrepreneurship literature has been dominated by studies focused on the North American and European contexts, where cultural norms and practices are very different compared to most emerging markets. Scholars have pointed out, for example, that East Asian economies with large ethnic Chinese populations are known for having a strong entrepreneurial orientation, but that efforts to understand their unique entrepreneurial approaches remain underexplored.

What of gender and entrepreneurship?

The vast majority of research into entrepreneurship has been based on the assumption that there are no major differences between men and women who engage in entrepreneurial activities. It was only in the late 1990s that specific research into women's entrepreneurship emerged, influenced by the literature on feminism, and on gender and occupations. As with much of the broader literature, studies on women entrepreneurs have drawn mainly from the U.S. and U.K. contexts.

While interest in women's entrepreneurship has only very recently emerged, the contributions of research in this area have posed important questions and challenges to the broader field of entrepreneurship. The first key contribution is the proposition that entrepreneurship is very much a **gendered phenomenon**. Entrepreneurial processes are governed and influenced by culturally and socially-driven beliefs, the characteristics associated with men and women, and the gender-specific roles that women and men are expected to play.

Studies elsewhere have found that entrepreneurship itself appears to be viewed as a male-orientated activity, and that women seem to be less likely to engage in entrepreneurial activity. Thus, this has tended to perpetuate gender stereotypes and may have the effect of inhibiting increased entrepreneurship participation among women.

Other studies have also found significant differences in the way that men and women entrepreneurs tend to acquire financial resources for their business. At the start-up phase of an enterprise, women have been found to seek lower levels of financing compared to men, and also appear less likely to seek formal (or external) sources of financing from venture capitalists and angel investors. They are less likely to publicly offer shares of stock, and generally tend to acquire lower levels of debt to finance ongoing operations.

There have also been some differences observed in the decisions that men and women entrepreneurs make with regard to strategy and operations.

Women have been found to prefer establishing businesses in the retail and personal service sectors, and are less likely to engage in exporting.

The second key contribution of the women's entrepreneurship literature is the insight regarding the **significant role that families play in entrepreneurial processes**. Studies elsewhere have found that families tend to play an important role in women's decisions regarding what opportunities to exploit and how these opportunities are exploited by the enterprise. There is significant scope for future research to explore the extent to which entrepreneurial decisions are made in consultation with the family, and – conversely – to investigate the degree to which entrepreneurial activity makes an impact on families.

Third, research into women entrepreneurs has raised important questions regarding the **motivations behind engaging in entrepreneurship**. These questions have emerged following findings among women entrepreneurs, who have indicated that they had been driven into entrepreneurship out of necessity. This challenges the narrower traditional notion that the main function of entrepreneurs is to identify and exploit opportunities in the market.

Finally, women's entrepreneurship research has challenged the dominant assumption in the broader entrepreneurship literature that entrepreneurs are risk-takers and have high growth aspirations for their enterprises. This follows findings among women entrepreneurs who appear to engage in business in order to **pursue goals other than economic gain**.

These early research findings clearly point to significant opportunities to gain further insight into the drivers behind differences between men and women entrepreneurs, particularly within developing country contexts.

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