

**COUR  
SE  
GUID  
E**

**ENT 209  
THEORY OF ENTREPRENEURSHIP**

**Course Team**      Dr. (Mrs) Bamidele Oshinowo (Course Writer)  
Department of Business  
Administration Faculty of  
Business Administration  
University of Lagos

Itunu Adeoye (Course Writer)  
Department of Business  
Administration Faculty of  
Management Sciences Babcock  
University

Dr. Jacob A. Alabi (Course  
Editor) Department of  
Entrepreneurial Studies Faculty  
of Management Sciences  
National Open University of  
Nigeria

Dr Muhammed G. Ibrahim  
(H.O.D) Department of  
Entrepreneurial Studies Faculty  
of Management Sciences  
National Open University of  
Nigeria

Dr. Samson Osoba (Dean)  
Faculty of Management  
Sciences  
National Open University of Nigeria

## **NATIONAL OPEN UNIVERSITY OF NIGERIA**

National Open University of Nigeria

**Headquarters** University Village Plot 91

Cadastral Zone

Nnamdi Azikiwe Expressway Jabi, Abuja.

Lagos Office

14/16 Ahmadu Bello Way Victoria Island, Lagos

e-mail: [centralinfo@noun.edu.ng](mailto:centralinfo@noun.edu.ng) URL:

[www.noun.edu.ng](http://www.noun.edu.ng)

Published by:

National Open University of Nigeria ISBN:

Printed: 2024

All Rights Reserved

# CONTENTS

Introduction

Course

Contents

Course Aims

Course

Objectives

Working through This

CourseCourse Materials

Study Units

Textbooks and

ReferencesAssignment

File Assessment

Tutor-Marked Assignment

Final Examination and

Grading

How to get the Best out of this

CourseFacilitators/Tutors and

Tutorials Useful Advice

Summary

# COURSE GUIDE

## INTRODUCTION

ENT 209 THEORY OF ENTREPRENEURSHIP is a one semester course work having two credit units. It is available to students on B.Sc. Entrepreneurship in the Faculty of Management Sciences at the National Open University of Nigeria.

The course is made up of 14 units covering essential topics in Theories of Entrepreneurship. It also treated in detail, the different theories of entrepreneurship and entrepreneurship development in Nigeria.

This course guide tells you what the course is all about, the relevant textbooks you should consult, and how to work through your course materials to get the best out of it. It also contains some guidelines on your tutor-marked assignments.

## COURSE CONTENTS

The aim of this course is to introduce you to the subject of theories of entrepreneurship. The course entails core the study of entrepreneurship is based on different theories and the contributions made by different theorists to entrepreneurship development. This topic is aimed at exploring these theories from a multidisciplinary perspective and help students to have proper understanding of the different contributions made by these theorists to entrepreneurship development.

## COURSE AIMS

The course aims to provide undergraduate students in a Nigerian University with a solid theoretical foundation and practical insights into the dynamic world of entrepreneurship. The course explores key concepts, principles, and strategies essential for aspiring entrepreneurs to navigate the challenges and seize opportunities in the Nigerian business environment. Sooner or later, the students, after their studies, will be able to model their businesses along with those theories of entrepreneurship already discussed in this study. Good knowledge of the development of entrepreneurship in Nigeria and notable contributors towards entrepreneurship development in Nigeria will give students the opportunity to understand the

importance of this concept of entrepreneurship in the Nigeria setting.

## **COURSE OBJECTIVES**

In order to achieve the full aims of the course, the study is divided into logical units and each unit states, at the beginning, the objective which is set to be achieved. You are therefore advised to read through the specific objectives before reading through the unit. However, the following represent some of the broad objectives of the course. That is to say, after studying the course as a whole, you should be able to:

- \* The concept of entrepreneurship
- \* Classification of entrepreneurship
- \* Views of entrepreneurship
- \* Major theories of entrepreneurship
- \* Other theories of entrepreneurship
- \* Contributors to the theory of entrepreneurship
- \* Entrepreneurship development in Nigeria
- \* Contributors to entrepreneurship development in Nigeria
- \* Specialized institution of entrepreneurship development in Nigeria

## **WORKING THROUGH THIS COURSE**

It is very crucial that you read through the units carefully by consulting the suggested texts and other relevant materials to broaden your understanding. The units may contain tutor-marked assignments to help you. Only when you have gone through all the study materials provided by the National Open University of Nigeria (NOUN) can you satisfy yourself that indeed you have

completed the course. Note that at certain points in the course you are expected to submit assignments for assessment, especially the Tutor-Marked Assignment (TMAs). At the end of the course, there will be a final examination to test your general understanding of the course.

## **COURSE MATERIALS**

Major components and study units in the study materials are:

Course Title: ENT 209 Theory of Entrepreneurship

**Study Units** We have four modules and fourteen study units under this course. These are: 7

## **CONTENT**

### **Module 1**

Unit 1 Concept of entrepreneurship

Unit 2 Classification of entrepreneurship

Unit 3 Historical background of Entrepreneurship

### **Module 2**

Unit 1 Economic theory of

entrepreneurshipUnit 2 Psychological  
theory

Unit 3 Sociological

theoryUnit 4

Innovation theory

Unit 5 Other theories of entrepreneurship

### **Module 3**

Unit 1 Contributors to the economic theory of

entrepreneurshipUnit 2 Contributors to the psychological  
theory

Unit 3 Contributors to the sociological theory

### **Module 4**

Unit 1 Role entrepreneurship to economic development in Nigeria

**Unit 2 Fostering a culture of entrepreneurship in Nigeria**

Unit 3 Contribution of successful Nigeria entrepreneurs to entrepreneurship

developmentUnit 4 Specialized institutions for entrepreneurship development

## TEXTBOOKS AND REFERENCES

You should use the prepared text for the course made available to you by NOUN. However, in your own interest, do not limit yourself to this study text. Make effort to read the recommended texts to broaden your horizon on the course.

## ASSIGNMENT FILE

The assignment file will be made available to you (where applicable). There, you will find details of all the work you must submit to your tutor for marking. The marks you obtain from these assignments will count towards the final mark you will obtain to hit the required pass-mark for the course.

## ASSESSMENT

Your performance on this course will be determined through two major approaches. The first is through your total score in the Tutor-Marked Assignments, and the second is through the final examination that will be conducted at the end of the course. Thus, your assessment in the course is made up of two components: Tutor-market Assignment 30% Final Examination 70%

The self-assessment tests which may be provided under some units do not form part of your final assessment. They are meant to help you understand the course better. However, it is important that you complete work on them religiously so that they will help in building you strongly and serving you as mock-examination.

## **TUTOR-MARKED ASSIGNMENT**

At the end of each unit, there is a Tutor-Market Assignment (TMA), which you are encouraged to do and submit accordingly. The study centre manager/ tutorial facilitator will guide you on the number of TMAs to be submitted for grading.

Each unit of this course has a TMA attached to it. You can only do this assignment after covering the materials and exercise in each unit. Normally, the TMAs are kept in a separate file. Currently, they are being administered on-line. When you answer the questions on-line, the system will automatically grade you. Always pay careful attention to the feedback and comments made by your tutor and use them to improve your subsequent assignments.

Do each assignment using materials from your study texts and other sources. Try to demonstrate evidence of proper understanding, and reading widely will help you to do this easily. The assignments are in most cases easy questions. If you have read the study texts provided by NOUN, you will be able to answer them. Cite examples from your own experience (where relevant) while answering the questions. You will impress your tutor and score higher marks if you are able to do this appropriately.

## **FINAL EXAMINATION AND GRADING**

At the end of the course, you are expected to sit for a final examination. The final examination grade is 70% while the remaining 30% is taken from your scores in the TMAs. Naturally, the final examination questions will be taken from the materials you have already read and digested in the various study units. So, you need to do a proper revision and preparation to pass your final examination very well.



## **HOW TO GET THE BEST OUT OF THIS COURSE**

The distance learning system of education is quite different from the traditional or conventional university system. Here, the prepared study texts replace the lecturers, thus providing you with a unique advantage. For instance, you can read and work through the specially designed study materials at your own pace and at a time and place you find suitable to you.

You should understand from the beginning that the contents of the course are to be worked on carefully and thoroughly understood. Step by step approach is recommended. You can read over a unit quickly to see the general run of the contents and then return to it the second time more carefully.

## **FACILTATORS/TUTORS AND TUTORIALS**

Full information about learning support services or tutorial contact hours will be communicated to you in due course. You will also be notified of the dates, time and location of these tutorials, together with the name of your tutors. Your tutor will mark and comment on your assignments. Pay attention to the comments and corrections given by your tutor and implement the directives as you make progress.

## **USEFUL ADVICE**

You should endeavour to attend tutorial classes since this is the only opportunity at your disposal to come face to face with your tutor/lecturer and to ask questions on any grey area you may have in your study texts. Before attending tutorial classes, you are advised to thoroughly go through the study texts and then prepare a list of questions you need to ask the tutor. This will afford you opportunity to actively participate in the class discussions.

## **SUMMARY**

Theories of entrepreneurship is the field of inquiry that focuses on the concept of entrepreneurship, Classification of entrepreneurship, historical development of entrepreneurship, economic theory, psychological theory, innovation theory, sociological theory and other relevant theories of entrepreneurship. The study also looked at the contributors to entrepreneurship from the theories already discussed in order to examine their impact towards each of the theories under study. The role and development of entrepreneurship in Nigeria was also discussed and notable contributors in Nigeria were also discussed. The specialized institutions which have helped in the growth and development of entrepreneurship in Nigeria

This study material is the first of its kind to take this type of approach by discussing theories of entrepreneurship seriously and to show the reader the usefulness of broadening his/her horizon beyond the familiar concepts in the field.

## **MAIN CONTENT**

### **Module 1**

Unit 1 Concept of Entrepreneurship Unit

Unit 2 Classification of entrepreneurship

Unit 3 Historical background of Entrepreneurship

### **Module 2**

Unit 1 Economic theory of entrepreneurship

Unit 2 Psychological theory

Unit 3 Sociological theory

Unit 4 Innovation theory

Unit 5 Other theories of entrepreneurship

### **Module 3**

Unit 1 Contributors to the economic theory of entrepreneurship

Unit 2 Contributors to the psychological theory

Unit 3 Contributors to the sociological theory

### **Module 4**

Unit 1 Entrepreneurship development in Nigeria

**Unit 2 Fostering a culture of entrepreneurship in Nigeria**

Unit 3 Contribution of successful Nigeria entrepreneurs to entrepreneurship development

Unit 4 Specialized institutions for entrepreneurship development

## **UNIT 1: CONCEPT OF ENTREPRENEURSHIP**

### Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 Definition of Entrepreneurship
- 1.4 Views of Entrepreneurship
  - 1.4.1 Economist's View
  - 1.4.2 Sociologist's View
  - 1.4.3 Psychologist's View
- 1.5 Who is an Entrepreneur
- 1.6 Characteristics an Entrepreneur
- 1.7 Summary
- 1.8 References/Further Readings/Web Resources
- 1.9 Answers to Self-Assessment Exercise(s)

## 1.1 Introduction

In this unit, we shall be defining entrepreneurship from various scholars, views of entrepreneurship from various schools, definitions of entrepreneurship and characteristics of an entrepreneur.

## 1.2 Learning Outcomes

By the end of this unit, you will be able to:

- Define entrepreneurship in scholarly ways from different authors
- Discuss views of entrepreneurship for better understanding
- Explain the concept of entrepreneurship
- Identify the characteristics of an entrepreneur

## 1.3 DEFINITION OF ENTREPRENEURSHIP

Entrepreneurship has no universal definition like other disciplines as many authors and scholars have defined it differently according to their own perspective. However, some author's definition shall be considered.

The word entrepreneurship descends from the French word *entreprendre*, which indicates an act in which the individual attempt, try, adventure or undertake an act of some sort. It was Richard Cantillon (in 18<sup>th</sup> century), separated activities from those of capitalistic activities. Later, Jean Baptiste Say developed the term to relate to the change of resources from low productivity to that of high productivity. Joseph Schumpeter at the beginning (of the 20<sup>th</sup> century), separated the capitalistic role from entrepreneurship and argued that entrepreneurs were –sociologically distinct individuals.

Hisrich (2002) Entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assuming accompany financial, psychic, and social risks and receiving the resulting rewards of monetary and personal satisfaction and independence.

Shaw (2004), and Chaten (2000), defined entrepreneurship as an attitude, and a way of thinking

and learning. It is a state of mind, an artifact, insightful and innovative mentality rather than business administration. It is a way of perceiving and exploring opportunity wherever it may be found.

Ronstadt (1984) defined Entrepreneurship as the dynamic process of creating incremental wealth. The wealth is created by individuals who assume the major risks in terms of equity, time and/or career commitment or provide value for some product or service. The product or service may or may not be new or unique but value must somehow be infused by the entrepreneur by receiving and allocating the necessary skills and resources

Entrepreneurship entails the ability to identify the resources, to perceive their economic potential, the ability and willingness to utilize these resources and to invest in their development deferring immediate rewards in favour of future investment. Needless to say, that all these activities associated with entrepreneurship bring forth economic and social development.

Jones and Sakong (1990) define entrepreneurship as a force that mobilizes other resources to the unmet market demand. Bygrave and Hofer define entrepreneurship is a process of creating an organization and pursuing it. The process of entrepreneurship involves all functions, activities and actions associated with the perceiving of opportunities and the creation of organizations to pursue them. Entrepreneurship is the recognition and pursuit of opportunity without regard to one's current control resources, with confidence and assurance of success, and the flexibility to change topic as necessary and the will to rebound from any setbacks (Reiss,2000).

Benjamin Higgins (1961) defined –Entrepreneurship is the function of seeing investment and production opportunities, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging for a supply of raw materials and finding site, and combining these factors of production in to a going concern; introducing new techniques and commodities,

Discovering new sources of natural resources; and selecting top managers for day-to-day operations of the enterprise. Gartner (1989), Low and Macmillan (1988) define entrepreneurship as the creation of a new enterprise. Stevenson and Gumpert (1985) also define entrepreneurship as the process of creating value by pulling together a unique package of resources to exploit an opportunity.

#### Self-Assessment Exercises 1

- Discuss the term Entrepreneurship “according to four different scholars
- Give a fully detailed explanation of an entrepreneur

## 1.4 Views of Entrepreneurship

### 1.4.1 Economist’s View

Entrepreneur and entrepreneurship have been a point of interest to economics as early as 1755. The term entrepreneur seems to have been introduced into economics by Cantillon, but the entrepreneur was first accorded prominence by Say. It was variously translated into English as ‘merchant’, ‘adventurer’ and ‘employer’, though the precise meaning is ‘the undertaker of a project.’ James Stuart Mill popularized the term in England. The concept was vague, wide and not clear.

Entrepreneurs were looked as adventurer. Entrepreneurship was looked as speculative activity. The economist sees an entrepreneur as someone who combines resources such as labour, materials and other assets, introduces changes, innovations and new orders for profitable and rewarding ends. According to economists, entrepreneurship and economic growth will take place in those situations where particular economic conditions are most favourable. Economic incentives are the major drive for the entrepreneurial activities. They firmly believe that a well-developed market and efficient economic policies foster entrepreneurship. G.F. Papanek and J. R. Harris are the main advocates of this theory. According to them, economic incentives are the

main drive for the entrepreneurial activities. In some cases, it not so evident, but the persons inner drives have always been associated with economic gains. Therefore, these incentives and gains are regards as the sufficient conditions for the emergence of industrial entrepreneurship. When an individual recognizes that the market for a product or service is out of equilibrium, he may purchase or produce at the prevailing price and sell to those who are prepared to but at the highest price. Lack of entrepreneurship is due to various kinds of market imperfections and inefficient economic policies.

#### **1.4.2 Sociologist's View**

Entrepreneurship is inhibited by the social system, which denies opportunities for creative facilities: The forces of custom, value system, the rigidity of status, district of new ideas and the exercise of intellectual curiosity, combined together creates an atmosphere inimical to experiment and innovation. Sociologists argue that entrepreneurship is most likely to emerge under a specific social culture. The sociologist sees the entrepreneur as goal-oriented and has the capacity to adapt to changing environment. According to the sociologist, social sanctions, cultural values and role expectations are responsible for the emergence of entrepreneurship. Social-cultural values channel economic action that gives birth to entrepreneurship.

The theories of Weber and Cochran are mainly sociological in nature and are major contributors to the theory. According to Cochran, the entrepreneur represents society 's model personality. The performance of the entrepreneur is dependent upon his own attitudes towards his occupation, the role expectations of sanctioning groups and the occupational requirements of the job. Society 's values are the most important determinant of the attitudes and role expectation. According to Weber, religious beliefs produce intensive exertion in occupational pursuits, the systematic ordering of means to end, and the accumulation on assets. It is these beliefs, which generate a drive



for entrepreneurial growth. He suggested that personal and social opportunity and the presence of the requisite psychological distributions may be seen as conditions for an individual 's movement into industrial entrepreneurship.

### 1.4.3 Psychologist's View

The psychologist sees an entrepreneur as someone who is being driven by certain forces that are mainly internal, personal attributes and traits. The phenomenon of entrepreneurship development has been viewed, explained and interpreted differently. Among those who have stressed on the psychological aspects as contributing to entrepreneurial success are Joseph Schumpeter, McClelland, Hagen and Kunkal. The main focus of these theories is as follows:

- Schumpeter believes that entrepreneurs are primarily motivated by an atavistic will to power, will to found a private kingdom or will to conquer.
- According to McClelland, it is the high need for achievement which drives people towards entrepreneurial activities. This achievement motive is inculcated through childrearing practices, which stress standards of excellence, material warmth, self-reliance training and low father dominance. Individuals with high achievement motive tend to take keen interest in situations of high risk, desire for responsibility and a desire for a concrete measure of task performance.
- Hagen considers withdrawal of status respect as the trigger mechanism for changes in personality formation. Status withdrawal is the perception on the part of the members of some social group that their purposes and values on life are not respected by groups in the society whom they respect
- Hagen identifies four types of events that can produce status withdrawal: (a) displacement by force, (b) denigration of value symbols; (c) inconsistency of status

symbols with a changing distribution of economic power, and (d) non acceptance of expected status on migration to anew society.

According to Psychologists, entrepreneurship is most likely to emerge when a society has sufficient supply of individuals possessing particular psychological characteristics. The main characteristics are:

- An institutional capacity to see things in new way(vision),
- Energy of will and mind to overcome fixed habits of thought,
- An urge to do something,
- To fulfil a dream,
- The capacity to withstand social opposition; and
- The high need for achievement.

#### Self-Assessment Exercises 2

- Critical discuss the views of entrepreneurship

### 1.5 Concept of an entrepreneur

The word "Entrepreneur" is derived from the French verb 'entrepredre'. It means 'to undertake'. In the early 16th century the Frenchmen who organized and led military expeditions were referred as 'Entrepreneurs. In the early 18<sup>th</sup> century French economist Richard Cantillon used the term entrepreneur to business. Since that time the word entrepreneur means one who takes the risk of starting a new organization or introducing a new idea, product or service to society.

According to J.B. Say, An entrepreneur is the economic agent who unites all means of production; land of one, the labour of another and the capital of yet another and thus produces a product. By selling the product in the market the pays rent of land, wages to labour, interest on capital and what remains is his profit. Thus, an entrepreneur is an organizer who combines

various factors of production to produce a socially viable product.

An entrepreneur can be regarded as a person who has the initiative skill and motivation to setup a business or enterprise of his own and who always looks for high achievements. He is the catalyst for social change and works for the common good. They look for opportunities, identify them and seize them mainly for economic gains. An action-oriented entrepreneur is a highly calculative individual who is always willing to undertake risks in order to achieve their goals.

According to Joseph Schumpeter, an entrepreneur in an advanced economy is an individual who introduces something new in the economy, a method of production not yet tested by experience in the branch of manufacture concerned, a product with which consumers are not yet familiar, a new source of raw material or of new market and the like.

According to Cantillon, an entrepreneur is the agent who buys factors of production at certain prices in order to combine them into a product with a view to selling it at uncertain prices in future. An entrepreneur is the person who bears risk, unites various factors of production; to exploit the perceived opportunities in order to evoked and, create wealth and employment.

Pinson (2010) visualized the entrepreneur as a person who starts a business to follow a vision, to make money, to be the master of his/her own soul (both financially and spiritually) and is an "educated" risk taker. Pickle and Abrahamson (1990) see an entrepreneur as someone who organizes and manages a business, under takes and assumes the risks for the sake of profitmaking. Murphy (2010) conceives an entrepreneur as a person who is dynamic and continues to seek opportunities and/or different methods of operation and will do whatever it takes to be successful in business.

Reiss (2010), views the entrepreneur as the person that recognizes and pursues opportunities without regard to the resources, he/she is currently controlling, with confidence that he/she can succeed, with the flexibility to change course as necessary, and with the will to rebound from setbacks. Envick and Langford (2000) define an entrepreneur as someone who owns and operates his/her own business. Bagby (1998) sees an entrepreneur as a person that utilizes the opportunity of instability, turbulence, lack to produce something new or modifies an existing one for profit motive.

### **1.6 Characteristics of an entrepreneur**

An entrepreneur must have certain traits in order to reach its full potentials. Some of the characteristics are;

#### **Motivation**

Entrepreneurs are usually passionate, buoyant and highly self-motivated. They have very high energy levels and are always willing to take initiatives. They are usually concerned about their business and how to increase the market share, how to improve their existing processes.

#### **Risk Tolerance**

The establishment of any entrepreneurial venture is risky and the entrepreneur has to assume risk. As risk and rewards are inseparable, in order to grow, the entrepreneur should have large appetite for assuming risk.

#### **Vision**

The entrepreneur is a visionary. One of the major responsibilities of an entrepreneur decides the direction the business should go. It requires a strong vision on the part of an entrepreneur to ensure his/her business reach maturity.

**Mental ability and Creativity**

The entrepreneur should anticipate changes and must be able to study the various situations under which decisions have to be made. Successful entrepreneurs have the creative ability to recognize and pursue opportunities. They are always on a look out for new ways of doing things such as launching new products, rebranding existing products, providing new services etc.

**Clear Objectives**

An entrepreneur has clarity about the objectives to be achieved in the business, the nature of goods to be produced and subsidiary activities to be undertaken. This clarity in objectives helps them to translate their business idea into reality and gives the business a sense of direction.

**Good Communication Skills**

This basically pertains to communicate effectively. An entrepreneur who can effectively communicate with customers, employees, suppliers and creditors will be more likely to succeed than the entrepreneur who does not. An entrepreneur must have a good feedback system.

**Human Skills**

An entrepreneur must have good human relations. The most important personality factors contributing to the success of any entrepreneur include emotional stability, good inter-personal relations, consideration and tactfulness. An entrepreneur has to maintain good relations with his customers so as to encourage them to continue to patronize his business. He must also maintain good relations with his employees so as to motivate them to perform their jobs with a high level of efficiency.

**Technical skills**

An entrepreneur must have the competence and proficiency in the knowledge of the business. It is the possession of specialized knowledge and understanding in methods, processes, procedures and techniques in carrying out day-to-day activities. Examples are; coaching, organizing, monitoring environment amongst others.

**Conceptual skills**

This skill enables an entrepreneur to see the business an integral unit with inter-relatedness and inter-dependence of various functions and activities as a unit change in one part will affect the other units. Examples; planning, decision-making, goal setting amongst others.

## Self-Assessment Exercises 3

- List and explain the characteristics of an entrepreneur

**1.7 SUMMARY**

In this unit, we have been able to discuss the following;

- the definition of entrepreneurship from various scholars
- perspectives of entrepreneurship



- definition of entrepreneur
- characteristics/traits of an entrepreneur

The word entrepreneurship which was coined from a French word *entreprendre* “which means merchant or an undertaker. There are various views of entrepreneurship from the economist, psychologist and sociologist. Various authors and scholars have also defined the word entrepreneur “. Entrepreneur can be seen as an innovator, risk taker, adventurer. There are certain traits that must imbedded in an entrepreneur in order to survive in his/her entrepreneurial pursuit among such is; self-motivated, good communication skills, skills, visionary, mental ability and so on.

## 1.8 REFERENCES

Burnett, .D. (2000). Hunting for Heffalumps: The Supply of Entrepreneurship and Economic Developmentll. *technopreneurial.com* . September. <http://www.technopreneurial.com/articles/history.asp>.

Cantillon, R. (circa 1730). In Putari, Vijith (2006). Re: Evolution of Entrepreneurshipll. March, 2nd. <http://www.managementparadise.com/forums/entrepreneurship/1118-Evolution-entrepreneurship.html>. Retrieved, 10th July, 2017.

Bygrave, W. D. 1989. The entrepreneurship paradigm (II): Chaos and Catastrophes among Quantum Jumps. *Entrepreneurship, Theory and Practice*. 14( 2), 7 – 3

- Deakins, D & Freel, M. (2009). *Entrepreneurship and Small Firms*. in Wikipedia (2010).-Entrepreneur. *Wikipedia, the free encyclopedia*.[http://en.wikipedia.org/wiki/Entrepreneur#cite\\_ref-0](http://en.wikipedia.org/wiki/Entrepreneur#cite_ref-0).
- Di-Masi, Paul (2010). -Defining Entrepreneurship. <http://www.gdrc.org/icm/micro/definemicro.html>. Retrieved , 10th July, 2017.
- Gartner(1988) in Putari, Vijith(2006).-Re: Evolution of Entrepreneurship. March, 2nd. <http://www.managementparadise.com/forums/entrepreneurship/1118-Evolution-entrepreneurship.html>. Retrieved, 10th July, 2017.
- Gordon, O.A. (2012). *Entrepreneurship Skills* . Moi University School Of Human Resource Development
- McCormick, Dorothy (1988), *Small Manufacturing Enterprise in Nairobi: Golden*
- Mohanty, S.K.(2009). *Fundamentals of Entrepreneurship*. New Delhi Prentice Hall of India Pvt. Ltd.,
- Murphy, Gillian (2010). in Thinkinglike (2010). -Entrepreneur: What's In a Definition? <http://www.thinkinglike.com/Essays/entrepreneur-definition.html>. Retrieved, 10th July, 2017
- Opportunity or Dead End?* Unpublished Ph.D Dissertation (Baltimore: The Johns Hopkins
- Say, Jean Baptiste (1816). in Putari, Vijith (2006). -Re: Evolution of Entrepreneurship. March, 2nd.

<http://www.managementparadise.com/forums/entrepreneurship/1118-evolution-entrepreneurship.html>, Retrieved on the 10th July, 2017.

Schumpeter, J. A. (1934). *The Theory of Economic Development*. Cambridge, MA: Harvard University Press.

Schumpeter, J.A. (1934). in Putari, Vijith (2006). -Re: Evolution of Entrepreneurship. March, 2nd. <http://www.managementparadise.com/forums/entrepreneurship/1118-Evolution-entrepreneurship.html>. Retrieved, 10th July, 2017.

Schumpeter, J.A. (1951). in Burnett, David (2000). -Hunting for Heffalumps: The Supply of Entrepreneurship and Economic Development. *technopreneurial.com*. September. <http://www.technopreneurial.com/articles/history.asp>.

## **1.9 POSSIBLE ANSWERS TO SELF- ASSESSMENT EXERCISES**

### **ANSWERS TO SAEs 1**

Hisrich (2002) Entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assuming accompany financial, psychic, and social risks and receiving the resulting rewards of monetary and personal satisfaction and independence.

Shaw (2004), and Chaten (2000), defined entrepreneurship as an attitude, and a way of thinking and learning. It is a state of mind, an artifact, insightful and innovative mentality rather than business administration. It is a way of perceiving and exploring opportunity wherever it may be found.

Ronstadt (1984) defined Entrepreneurship as the dynamic process of creating incremental wealth. The wealth is created by individuals who assume the major risks in terms of equity, time and/or career commitment or provide value for some product or service. The product or service may or may not be new or unique but value must somehow be infused by the entrepreneur by receiving and allocating the necessary skills and resources

Entrepreneurship entails the ability to identify the resources, to perceive their economic potential, the ability and willingness to utilize these resources and to invest in their development deferring immediate rewards in favour of future investment. Needless to say, that all these activities associated with entrepreneurship bring forth economic and social development.

Jones and Sakong (1990) define entrepreneurship as a force that mobilizes other resources to the unmet market demand. Bygrave and Hofer define entrepreneurship is a process of creating an organization and pursuing it. The process of entrepreneurship involves all functions, activities and actions associated with the perceiving of opportunities and the creation of organizations to pursue them. Entrepreneurship is the recognition and pursuit of opportunity without regard to one's current control resources, with confidence and assurance of success, and the flexibility to

change topic as necessary and the will to rebound from any setbacks (Reiss,2000).

Benjamin Higgins (1961) defined –Entrepreneurship is the function of seeing investment and production opportunities, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging for a supply of raw materials and finding site, and combining these factors of production in to a going concern; introducing new techniques and commodities.

## **ANSWERS TO SAEs 2**

### **Economist's View**

Entrepreneur and entrepreneurship have been a point of interest to economics as early as 1755. The term entrepreneur seems to have been introduced into economics by Cantillon, but the entrepreneur was first accorded prominence by Say. It was variously translated into English as merchant ‘, adventurer ‘and employer‘, though the precise meaning is the undertaker of a project.‘ James Stuart Mill popularized the term in England. The concept was vague, wide and not clear.

Entrepreneurs were looked as adventurer. Entrepreneurship was looked as speculative activity. The economist sees an entrepreneur as someone who combines resources such as labour, materials and other assets, introduces changes, innovations and new orders for profitable and rewarding ends. According to economists, entrepreneurship and economic growth will take place in those situations where particular economic conditions are most favourable. Economic incentives are the major drive for the entrepreneurial activities. They firmly believe that a well-developed market and efficient economic policies foster entrepreneurship. G.F. Papanek and J. R. Harris are the main advocates of this theory. According to them, economic incentives are the main drive for the entrepreneurial activities. In some cases, it not so evident, but the persons inner drives have always been associated with economic gains. Therefore, these incentives and

gains are regarded as the sufficient conditions for the emergence of industrial entrepreneurship. When an individual recognizes that the market for a product or service is out of equilibrium, he may purchase or produce at the prevailing price and sell to those who are prepared to buy at the highest price. Lack of entrepreneurship is due to various kinds of market imperfections and inefficient economic policies.

### **Sociologist's View**

Entrepreneurship is inhibited by the social system, which denies opportunities for creative facilities: The forces of custom, value system, the rigidity of status, distrust of new ideas and the exercise of intellectual curiosity, combined together creates an atmosphere inimical to experiment and innovation. Sociologists argue that entrepreneurship is most likely to emerge under a specific social culture. The sociologist sees the entrepreneur as goal-oriented and has the capacity to adapt to changing environment. According to the sociologist, social sanctions, cultural values and role expectations are responsible for the emergence of entrepreneurship. Social-cultural values channel economic action that gives birth to entrepreneurship.

The theories of Weber and Cochran are mainly sociological in nature and are major contributors to the theory. According to Cochran, the entrepreneur represents society's model personality. The performance of the entrepreneur is dependent upon his own attitudes towards his occupation, the role expectations of sanctioning groups and the occupational requirements of the job. Society's values are the most important determinant of the attitudes and role expectations. According to Weber, religious beliefs produce intensive exertion in occupational pursuits, the systematic ordering of means to ends, and the accumulation of assets. It is these beliefs, which generate a drive for entrepreneurial growth. He suggested that personal and social opportunity and the presence of the requisite psychological distributions may be seen as conditions for an individual's movement into industrial entrepreneurship.

## Psychologist's View

The psychologist sees an entrepreneur as someone who is being driven by certain forces that are mainly internal, personal attributes and traits. The phenomenon of entrepreneurship development has been viewed, explained and interpreted differently. Among those who have stressed on the psychological aspects as contributing to entrepreneurial success are Joseph Schumpeter, McClelland, Hagen and Kunkal. The main focus of these theories is as follows:

- Schumpeter believes that entrepreneurs are primarily motivated by an atavistic will to power, will to found a private kingdom or will to conquer.
- According to McClelland, it is the high need for achievement which drives people towards entrepreneurial activities. This achievement motive is inculcated through childrearing practices, which stress standards of excellence, material warmth, self-reliance training and low father dominance. Individuals with high achievement motive tend to take keen interest in situations of high risk, desire for responsibility and a desire for a concrete measure of task performance.
- Hagen considers withdrawal of status respect as the trigger mechanism for changes in personality formation. Status withdrawal is the perception on the part of the members of some social group that their purposes and values on life are not respected by groups in the society whom they respect
- Hagen identifies four types of events that can produce status withdrawal: (a) displacement by force, (b) denigration of value symbols; (c) inconsistency of status symbols with a changing distribution of economic power, and (d) non acceptance of expected status on migration to a new society.

According to Psychologists, entrepreneurship is most likely to emerge when a society has sufficient supply of individuals possessing particular psychological characteristics. The main characteristics are:

- An institutional capacity to see things in new way(vision),
- Energy of will and mind to overcome fixed habits of thought,
- An urge to do something,
- To fulfil a dream,
- The capacity to withstand social opposition; and
- The high need for achievement.

### **ANSWERS TO SAEs 3**

#### **Characteristics of an entrepreneur**

An entrepreneur must have certain traits in order to reach its full potentials. Some of the characteristics are;

#### **Motivation**

Entrepreneurs are usually passionate, buoyant and highly self-motivated. They have very high energy levels and are always willing to take initiatives. They are usually concerned about their business and how to increase the market share, how to improve their existing processes.

#### **Risk Tolerance**

The establishment of any entrepreneurial venture is risky and the entrepreneur has to assume risk. As risk and rewards are inseparable, in order to grow, the entrepreneur should have large appetite for assuming risk.

#### **Vision**

The entrepreneur is a visionary. One of the major responsibilities of an entrepreneur decides the direction the business should go. It requires a strong vision on the part of an entrepreneur to ensure his/her business reach maturity.



**Mental ability and Creativity**

The entrepreneur should anticipate changes and must be able to study the various situations under which decisions have to be made. Successful entrepreneurs have the creative ability to recognize and pursue opportunities. They are always on a look out for new ways of doing things such as launching new products, rebranding existing products, providing new services etc.

**Clear Objectives**

An entrepreneur has clarity about the objectives to be achieved in the business, the nature of goods to be produced and subsidiary activities to be undertaken. This clarity in objectives helps them to translate their business idea into reality and gives the business a sense of direction.

**Good Communication Skills**

This basically pertains to communicate effectively. An entrepreneur who can effectively communicate with customers, employees, suppliers and creditors will be more likely to succeed than the entrepreneur who does not. An entrepreneur must have a good feedback system.

**Human Skills**

An entrepreneur must have good human relations. The most important personality factors contributing to the success of any entrepreneur include emotional stability, good inter-personal relations, consideration and tactfulness. An entrepreneur has to maintain good relations with his customers so as to encourage them to continue to patronize his business. He must also maintain good relations with his employees so as to motivate them to perform their jobs with a high level of efficiency.

**Technical skills**

An entrepreneur must have the competence and proficiency in the knowledge of the business. It is the possession of specialized knowledge and understanding in methods, processes, procedures and techniques in carrying out day-to-day activities. Examples are; coaching, organizing, monitoring environment amongst others.

**Conceptual skills**

This skill enables an entrepreneur to see the business an integral unit with inter-relatedness and inter-dependence of various functions and activities as a unit change in one part will affect the other units. Examples; planning, decision-making, goal setting amongst others





## **Unit 2: CLASSIFICATION OF ENTREPRENEURSHIP**

### **Unit Structure**

- 2.1 Introduction
- 2.2 Learning Outcomes
- 2.3 Clarence Danhof Classification
  
- 2.4 Arthur H. Cole Classification
  
- 2.5 Classification on the Basis of Ownership
- 2.6 Classification Based on the Scale of Enterprise
- 2.7 New Classifications of Entrepreneurs
- 2.8 Naidu and Rao Classification
  - 2.8.1 Socio Cultural Classification
  - 2.8.2 Motivational Classification
  - 2.8.3 Entrepreneurial Experience Classification
  - 2.8.4 Technical experience Classification
- 2.9 Summary
- 2.10 References/Further Readings/Web Resources
- 2.11 Possible Answers to Self-Assessment Exercise(s) within the content

## 2.1 Introduction

Entrepreneur can be seen as an innovator, risk taker, and adventurer with various views of entrepreneurship from the economist, psychologist and sociologist. In the last unit, we discussed the word entrepreneurship which was coined from a French word “entreprendre“ which means merchant or an undertaker.

This unit focuses on the number of ways through which Entrepreneurs can be classified for better understanding. They can be classified on the basis of the type of business, use of technology, gender, motivation, organization and many more. In this unit, we will discuss several scholarly classifications of entrepreneurs.

## 2.2 Learning Outcomes

By the end of this unit, you will be able to:

- Discuss Clarence Danhof Classification of Entrepreneurship
- Explain Arthur H. Cole Classification of Entrepreneurship
- Classify Entrepreneurship on the Basis of Ownership
- Identify based on the scale of Enterprise
- Describe New classification of Entrepreneur
- Classify based on Naidu and Rao

## 2.3 Clarence Danhol Classification

Clarence Danhof, on the basis of his study of American agriculture, classified entrepreneurs in the manner that at the initial stage of economic development entrepreneurs have less initiative and drive and as economic development proceeds, they become more innovating and enthusiastic (Gupta & Khanka, 2010). Based on this, he classified entrepreneurs into four categories namely;

1. **Innovative:** Innovative entrepreneur is one who assembles and synthesis information and introduces new combinations of factors of production. They are characterized by the smell of innovativeness. These entrepreneurs sense the opportunities for introduction new ideas, new technology, new products, recreation of an existing product, new markets and creating new

organizations. Innovative entrepreneurs are very much helpful for their country because they bring about a transformation in life style.

2. **Imitative/ Adoptive:** Imitative entrepreneur is also known as adoptive entrepreneur. He simply adopts successful innovation introduced by other innovators. These entrepreneurs imitate the ideas of existing entrepreneurs and setup their enterprise in like manner. Instead of creating new ideas, they just imitate the technology and methods created by others. These entrepreneurs are very helpful in less developed countries as they contribute significantly in the growth of enterprise and entrepreneurial culture in these countries. They adopt the technology which has already been tested which generates abundant employment avenues for the youth and therefore they are treated as agent of economic development.

3. **Fabian:** The Fabian entrepreneur is timid and cautious. He imitates other innovations only if he is certain that failure to do so may damage his business. They are usually very skeptical in their approach in adopting or innovating new technology in their enterprise. They are not adaptable to the changing environment. They love to remain in their existing business with the classic/age-old techniques of production. They only adopt the new technology when they realize that failure to adopt will lead to loss or collapse of the enterprise.

**Drone:** These entrepreneurs are typically conservative or conventional in their outlook. They by no means like to get rid of their long-established business and traditional machinery or systems of the business. They feel contented with their old-fashioned technology of production even though the environment as well as the society has undergone substantial changes. Thus, drone entrepreneurs refuse to adopt the changes. They are laggards as they continue to operate in their traditional way and resist changes. They refuse to adopt changes in production even at the risk of reduced returns.

#### Self-Assessment Exercises 1

- Briefly explain the Clarence Danhof classification

## 2.4 Arthur H. Cole Classification

Arthur H. Cole classifies entrepreneurs as:

1. **Empirical:** This entrepreneur hardly introduces anything revolutionary and follows the principle of rule of thumb.
2. **Rational:** The rational entrepreneur is well informed about the general economic conditions and introduces changes which look more radical.
3. **Cognitive:** The cognitive entrepreneur is well informed, draws upon the advice and services of experts in his line of business and introduces changes that replicate the absolute break from the existing system of enterprise.

Self-Assessment Exercises 2

- Critically discuss the Arthur H. Cole classification

## 2.5 Classification on the Basis of Ownership

1. **Private:** Private entrepreneur is motivated by profit and it would not enter those sectors of the economy in which prospects of monetary rewards are not very bright.
2. **Public:** In the underdeveloped countries government will take the initiative to share enterprises.

## 2.5 Classification Based on the Scale of Enterprise

1. **Small scale:** This classification is especially popular in the underdeveloped countries. Small entrepreneurs do not have the necessary talents, skills and resources to initiate large scale production and introduce revolutionary technological changes.
2. **Large scale:** In the developed countries, most entrepreneurs deal with large scale enterprises. They possess the necessary resources such as human, technology, financial and also the necessary enterprise to initiate and introduce new technical changes. The implication of this is



that the developed countries are able to sustain and develop a high level of technical progress.

## 2.7 New Classifications of Entrepreneurs

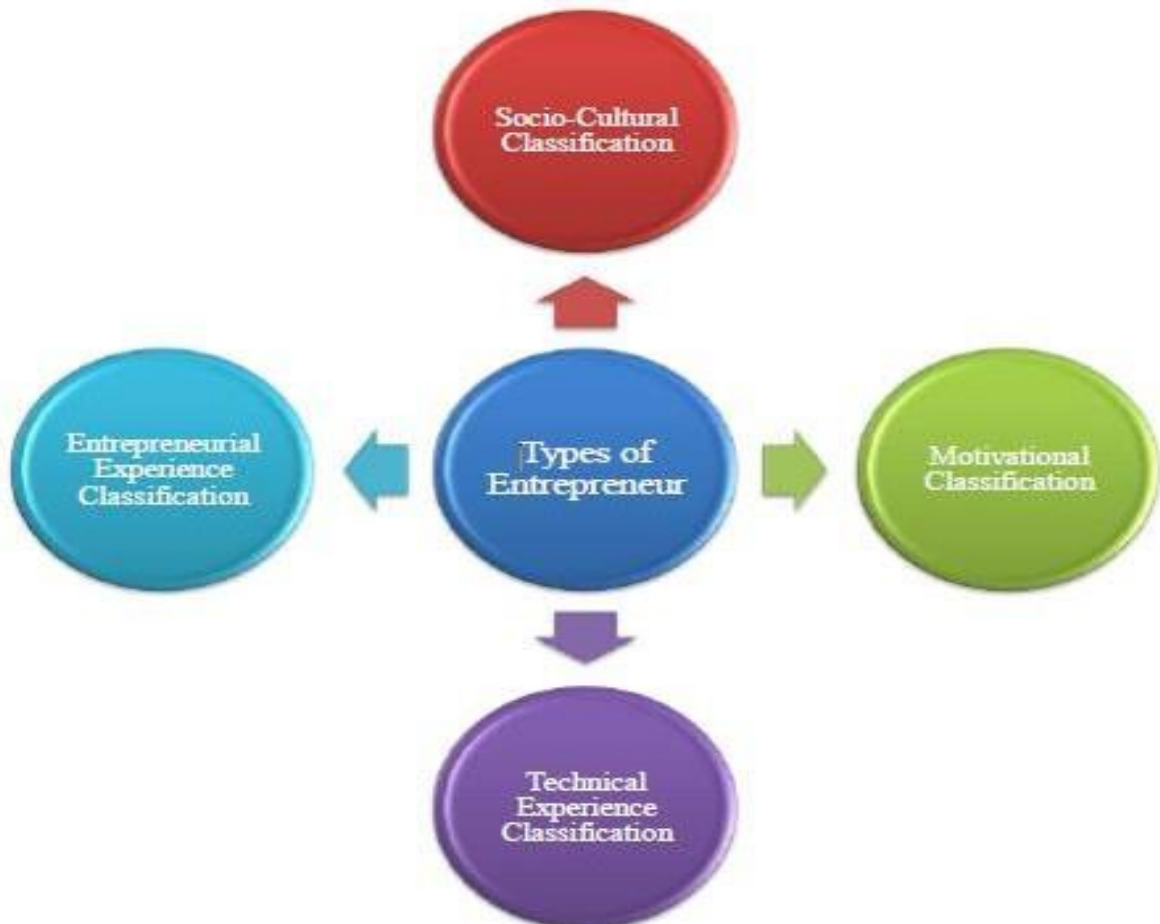
In recent years, some new classifications have been made regarding classification of the entrepreneurs, which are;

1. **Solo operators:** These entrepreneurs prefer to set up their business individually. They introduce their own capital, intellect and business acumen to run the enterprise successfully. They operate their business mainly in the form of sole proprietorship.
2. **Active partners:** Entrepreneurs of this type jointly put their efforts to build enterprise by pooling together their own resources. They actively participate in managing the daily routine of the business concern. As such, the business houses or the firms which are managed by the active partners become more successful in their operation.
3. **Inventors:** These entrepreneurs primarily involve themselves in Research and Development (R and D) activities. They are creative in character and feel happy in inventing new products, technologies and methods of production
4. **Challengers** Entrepreneurs of this type take challenges to establish business venture as mark of achievement. They keep on improving their standard and face boldly the odds and adversities that come in their way. They use their business acumen and talent to convert the odds into opportunities thereby making profit. According to them, if there is no challenge in life, there is no charm in life. Challenges make them bold, and thus, they never hesitate to plunge themselves into uncertainties for earning profit.
5. **Buyers (entrepreneurs):** These entrepreneurs explore opportunities to purchase the existing units which may be seized or are in running condition. If the units they purchase are sick they turn them around using their experiences, expertise and business acumen. By purchasing these units they make themselves free from the hassles of building infrastructures and other facilities.
6. **Life timers:** These entrepreneurs believe that business is the part and parcel of their life. They

take up the business to reunite successfully as a matter of ego satisfaction. They have a strong desire for taking personal responsibility. Family enterprises which thrive due to high personal skill are included under this category.

Another classification of the entrepreneur was made by Naidu and Rao (2008). This has a very comprehensively classified the entrepreneurs on the basis of majorly four parameters which are;

- Socio-cultural classification
- Motivational classification
- Entrepreneurial experience classification
- Technical experience classification



Source: Pahuja(2015)

**2.8 Naidu and Rao Classification of Entrepreneurship**

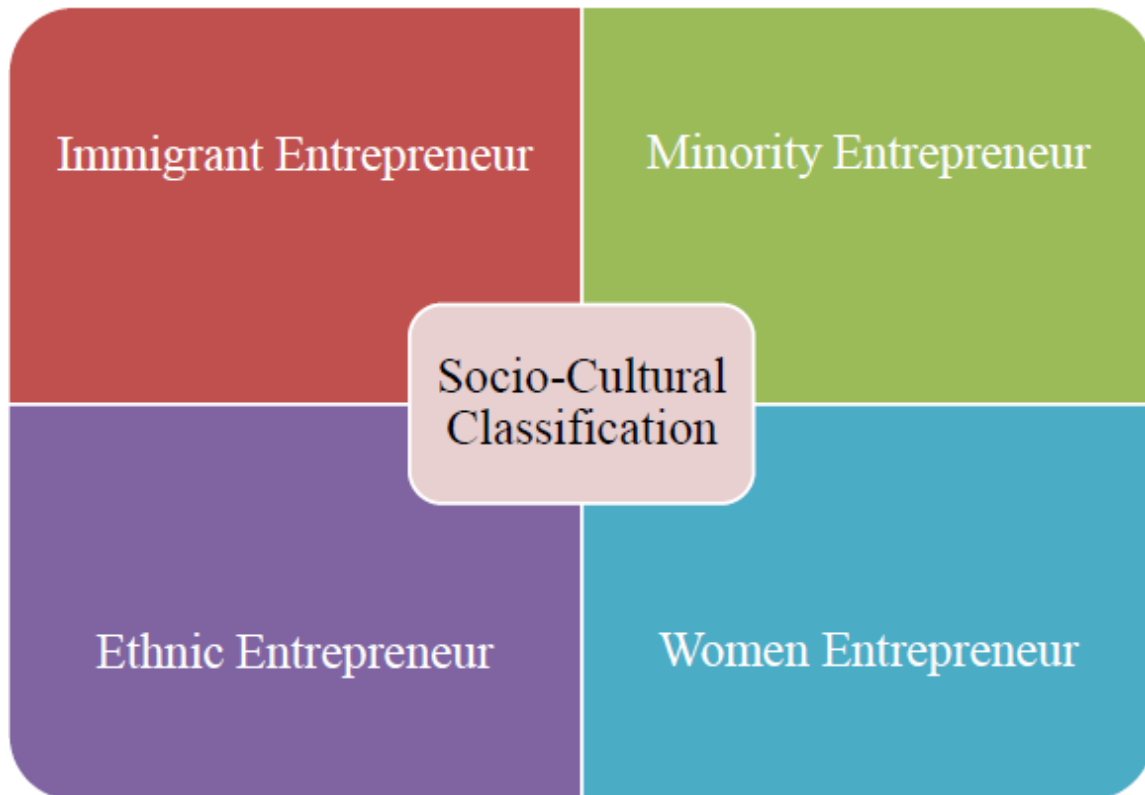
**2.8 .1 Socio Cultural Classification:** On the basis of Socio Cultural Classification, the entrepreneurs can be put into four categories.

**Immigrant Entrepreneur** is an individual who has a recent arrival in a country and starts a business as a means of his survival in the country.

**Ethnic entrepreneurs** have a set of common connections and and regular patterns of interaction among people sharing common national backgrounds or migration experiences.

**Minority entrepreneurs** are the ones who don't belong to majority population. e.g any entrepreneur of Indian origin in US would fall into this.

Women Entrepreneurs



Source: Pahuja(2015)

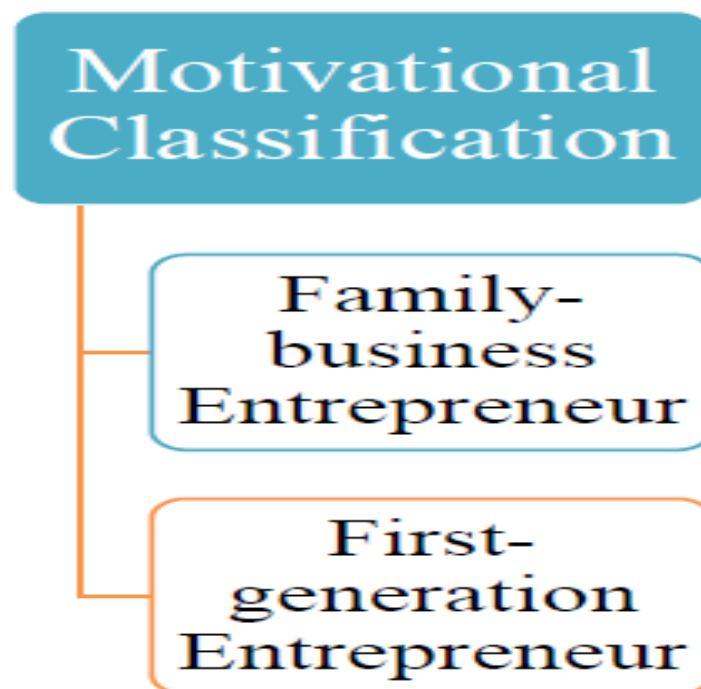
**2.8.2 Motivational Classification:** On the basis of motivation to start a new venture, entrepreneurs can be put into four categories.

**First-generation entrepreneur** is the one who starts afresh, does not have any family business prior to establishing his new venture.

**Self-actualizer entrepreneurs** are the ones who want to self-actualize themselves, want to they achieve something are capable of, just for the sake of independence and autonomy

**Discontented entrepreneurs** are the one who are unhappy with the organization, they workedwith and decide to start a new venture.

**Family business entrepreneurs** are the ones who inherit their family business and expand itfurther.

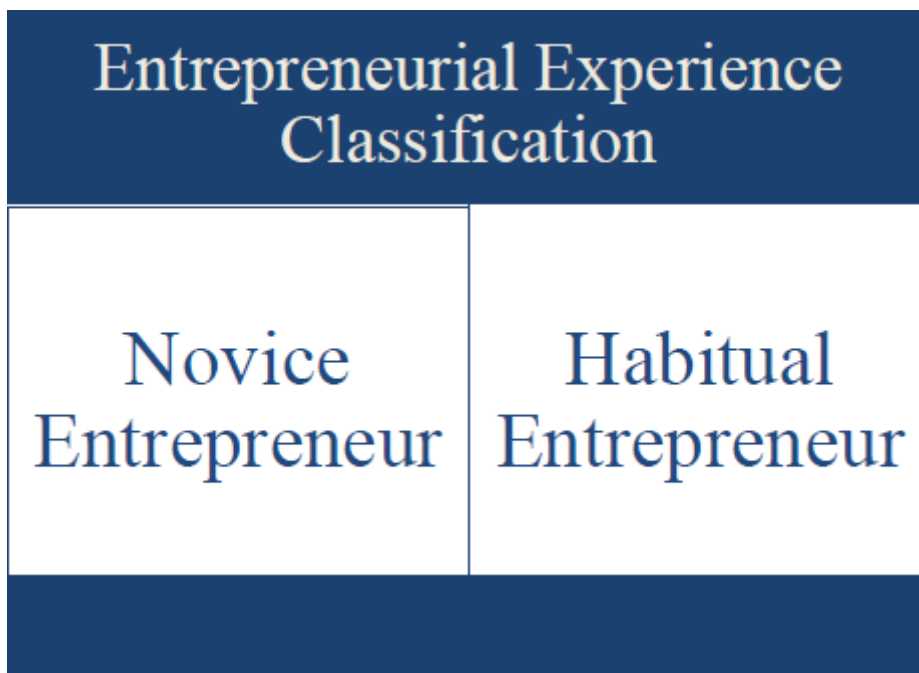


Source: Pahuja (2015)

**2.8.3 Entrepreneurial Experience Classification:** On the basis of Entrepreneurial Experience Classification, the entrepreneurs can be put into two broad categories, Novice and Habitual Entrepreneurs.

**Novice entrepreneurs** are the individuals who does not have any business ownership experience in past (neither as a founder nor as inheritor) but now they own an independent business

**Habitual Entrepreneurs** are the ones who have the experience of owning at least two or more different firms, one at a time.



Source: Pahuja(2015)

Self-Assessment Exercises 3

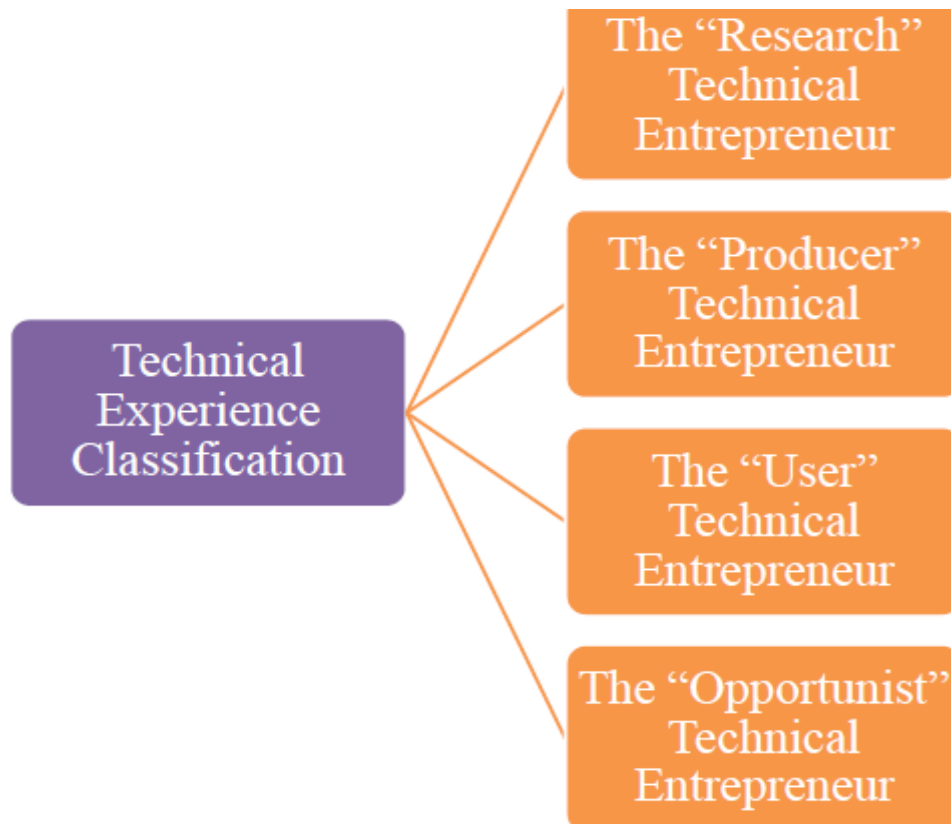
- Discuss the socio-cultural classification with examples to buttress the discussion

**2.8.4 Technical experience Classification:** A technical experience entrepreneur is defined as the founder and current owner manager of technology-based business. They can be **the “Research” Technical entrepreneur** with a prior experience of technological research, prior to starting his own technical venture.

**The “producer” technical entrepreneur**, is the one who has a history of involvement in direct commercial production, prior to starting his own venture .

**The “User” technical entrepreneur** is the one who had been involved as an end user of the specific product/technology.

**The “Opportunist” technical entrepreneur**, who has identified and visualized a technology-based opportunity and grabbed it to set up his technology-based venture.



Source: Pahuja (2015)

## 2.9 Summary

We have been able to discuss extensively the following;

- Clarence Danhof Classification
- Arthur H. Cole Classification
- Classification on the Basis of Ownership
- Classification Based on the Scale of Enterprise
- New classification
- Socio Cultural Classification
- Motivational Classification
- Entrepreneurial experience classification
- Technical experience classification

These classifications have explained the category an entrepreneur can fall into depending on their business enterprise, gender, technical skills, and motivation amongst others.

## 2.10 REFERENCE

- Gupta, C. B. & Khanka, S.S. (2010). *Entrepreneurship and Small Business Management*, 4th edition. New Delhi: Sultan Chand & Sons
- khole, R. ., Kapse, P. S. & Deshmukh, P. R.( ). *Entrepreneurship Development and Communication Skills*. India: Scientific Publishers
- Mohanty, S.K. ( 2009). *Fundamentals of Entrepreneurship*. New Delhi: PrenticeHall of India Pvt. Ltd.

Naidu, N.V.R. & Rao, T.K. (2008). *Management and Entrepreneurship*.

NewDelhi: I.K International Publishing House.

Pahuja, .A. & Sanjeev, .R. (2016). Introduction to Entrepreneurship. Retrieved

from <https://www.researchgate.net/publication/301659818>, 10<sup>th</sup> June, 2017

Robert, H.D. & Peters, P. (2015) "*Entrepreneurship*ll 6th edition. Tata: McGraw Hill

Ronstadt, R.C. (1984) *Entrepreneurship*. Dover, MA: Lord Publishing Co.

Vasant,D.( ).*Entrepreneurship Development*. New Delhi:Himalaya

PublishingHouse.

## 2.11 POSSIBLE ANSWERS TO SELF- ASSESSMENT EXERCISES

### ANSWERS TO SAEs 1

#### Clarence Danhol Classification

Clarence Danhof, on the basis of his study of American agriculture, classified entrepreneurs in the manner that at the initial stage of economic development entrepreneurs have less initiative and drive and as economic development proceeds, they become more innovating and enthusiastic (Gupta & Khanka, 2010). Based on this, he classified entrepreneurs into four categories namely;

4. **Innovative:** Innovative entrepreneur is one who assembles and synthesis information and introduces new combinations of factors of production. They are characterized by the smell of innovativeness. These entrepreneurs sense the opportunities for introduction new ideas, new technology, new products, recreation of an existing product, new markets and creating new organizations. Innovative entrepreneurs are very much helpful for their country because they bring about a transformation in life style.

5. **Imitative/ Adoptive:** Imitative entrepreneur is also known as adoptive entrepreneur. He simply adopts successful innovation introduced by other innovators. These entrepreneurs imitate



the ideas of existing entrepreneurs and setup their enterprise in like manner. Instead of creating new ideas, they just imitate the technology and methods created by others. These entrepreneurs are very helpful in less developed countries as they contribute significantly in the growth of enterprise and entrepreneurial culture in these countries. They adopt the technology which has already been tested which generates abundant employment avenues for the youth and therefore they are treated as agent of economic development.

6. **Fabian:** The Fabian entrepreneur is timid and cautious. He imitates other innovations only if he is certain that failure to do so may damage his business. They are usually very skeptical in their approach in adopting or innovating new technology in their enterprise. They are not adaptable to the changing environment. They love to remain in their existing business with the classic/age-old techniques of production. They only adopt the new technology when they realize that failure to adopt will lead to loss or collapse of the enterprise.

**Drone:** These entrepreneurs are typically conservative or conventional in their outlook. They by no means like to get rid of their long-established business and traditional machinery or systems of the business. They feel contented with their old-fashioned technology of production even though the environment as well as the society has undergone substantial changes. Thus, drone entrepreneurs refuse to adopt the changes. They are laggards as they continue to operate in their traditional way and resist changes. They refuse to adopt changes in production even at the risk of reduced returns.

## ANSWERS TO SAEs 2

### Arthur H. Cole Classification

Arthur H. Cole classifies entrepreneurs as:

4. **Empirical:** This entrepreneur hardly introduces anything revolutionary and follows the principle of rule of thumb.
5. **Rational:** The rational entrepreneur is well informed about the general economic conditions and introduces changes which look more radical.
6. **Cognitive:** The cognitive entrepreneur is well informed, draws upon the advice and services of experts in his line of business and introduces changes that replicate the absolute break from the existing system of enterprise.

## ANSWERS TO SAEs 3

**Socio Cultural Classification:** On the basis of Socio Cultural Classification, the entrepreneurs can be put into four categories.

**Immigrant Entrepreneur** is an individual who has a recent arrival in a country and starts a business as a means of his survival in the country.

**Ethnic entrepreneurs** have a set of common connections and regular patterns of interaction among people sharing common national backgrounds or migration experiences.

**Minority entrepreneurs** are the ones who don't belong to majority population. e.g any entrepreneur of Indian origin in US would fall into this.

## **Unit 3: HISTORY OF ENTREPRENEURSHIP DEVELOPMENT**

### Unit Structure

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 Evolution of entrepreneurship from the earliest period
- 3.4 Evolution of entrepreneurship from middle East
- 3.5 Evolution of entrepreneurship from the 17<sup>th</sup> century
- 3.6 Evolution of entrepreneurship from the 18<sup>th</sup> century
- 3.7 Evolution of entrepreneurship from the 19<sup>th</sup> century
- 3.8 Evolution of entrepreneurship from the 20<sup>th</sup> century
- 3.9 **Analysis of historical and cultural context of entrepreneurship in Nigeria**
- 3.9 Summary
- 3.10 References/Further Readings/Web

### **3.1 Introduction**

In the last unit we examined the classification of entrepreneur from various authors and scholars. We discussed the Clarence Dahof classification which had four classifications of an entrepreneur, Arthur H. classification, the new classification, motivational classification amongst others

The evolution of entrepreneurship started in the 17<sup>th</sup> century and it has continued to evolve over the years. The concept of entrepreneurship has been traced to the classical school at the earliest period to the 21<sup>st</sup> century. The development of entrepreneurship has witnessed a lot of progress. The views of entrepreneurship have changed from one period to another.

### **3.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Discuss evolution of entrepreneurship from the earlier period
- Analyze evolution of entrepreneurship from Middle East

- Explain evolution of entrepreneurship from the 17<sup>th</sup> Century
- Discuss evolution of entrepreneurship from the 18<sup>th</sup> Century
- Explain evolution of entrepreneurship from the 19<sup>th</sup> century

### 3.3 Evolution of the Concept of Entrepreneurship

The concept of entrepreneurship was first established in the 1700s, and the meaning has evolved ever since. The concept entrepreneur is derived from the French concept –entreprenneur which literally is equivalent to the English concept–to undertake or go-between “. Entrepreneurship has been traced from the earliest period to Middle East, 17<sup>th</sup> century down to 21<sup>st</sup> century.

During this period, Marco polo who was an Italian acted as a go-between. He made attempts to trade routes to the Far East. As a go-between, he had to sign a contract with a money person to sell his goods while as a merchant; he took active role in trading by bearing all the physical and emotional risks involved in the venture.

### 3.4 Middle East

During this era, the term entrepreneur “was used to describe both an actor and a person who manages large production task or projects. In this era, individuals do not take any risks because all the resources used are provided by the government of the country, and the entrepreneur does is to manage it. The entrepreneur is seen as a custodian of government resources and also as a priest.

#### Self-Assessment Exercises 1

- Discuss the evolution of entrepreneurship from the earliest period and Middle East

### **3.4 17<sup>th</sup> century**

The connection of the risk with entrepreneurship was developed in the 17th century. During this era, an entrepreneur was a person who entered into a contract with the government to perform a service or to supply stipulated products. An example of an entrepreneur during that period is John Law, a Frenchman. He was the founder of the royal bank of France and the Mississippi Company, which had an exclusive franchise to trade between France and the new world. Richard Cantillon, an English man, first adopted the word entrepreneur to describe a risk bearer when he observed that merchants, farmers, craftsmen, and other sole proprietors buy at a certain price and sell at an uncertain price, therefore operating at a risk.

### **3.5 18<sup>th</sup> century**

In this era, the concept of entrepreneurship was viewed as capital demand and use, and the entrepreneur as one who made use of capital for his invention for commercial purposes. The person with capital was differentiated from the one who needed capital hence; the entrepreneur was distinguished from the capital provider. A major reason for this differentiation was as a result of the industrial revolution. Many of the inventors during this time were Eli Whitney and Thomas Edison. They both developed new technologies but were unable to finance their inventions themselves. Both Edison and Whitney were capital users (entrepreneurs), not providers (venture capitalists).

### **3.7 19<sup>th</sup> Century**

Late in the eighteenth century, the concept of entrepreneurship was expanded to include not only the bearing of 19<sup>th</sup> century:

Entrepreneurs were viewed from an economic and managerial perspective. The entrepreneur organizes and operates enterprise for personal gain. He was seen as someone who combined the factors of production (such as land, machine, labour, capital, skills, personal initiatives and

ingenuity) in planning, organizing, and administering the enterprises. He also assumes the chance of loss and gain consequent to unforeseen and uncontrollable circumstances. The entrepreneur retains for himself the net residue of the annual receipts of the enterprises after all costs have been paid. The nineteenth century was a fertile time for entrepreneurial activity because technological advances during the industrial revolution provided the impetus for continued inventions and innovations. Then, toward the end of the nineteenth century, the concept of entrepreneurship changed slightly again to distinguish between those who supplied funds and earned interest and those who profited from entrepreneurial abilities.

#### Self-Assessment Exercises 2

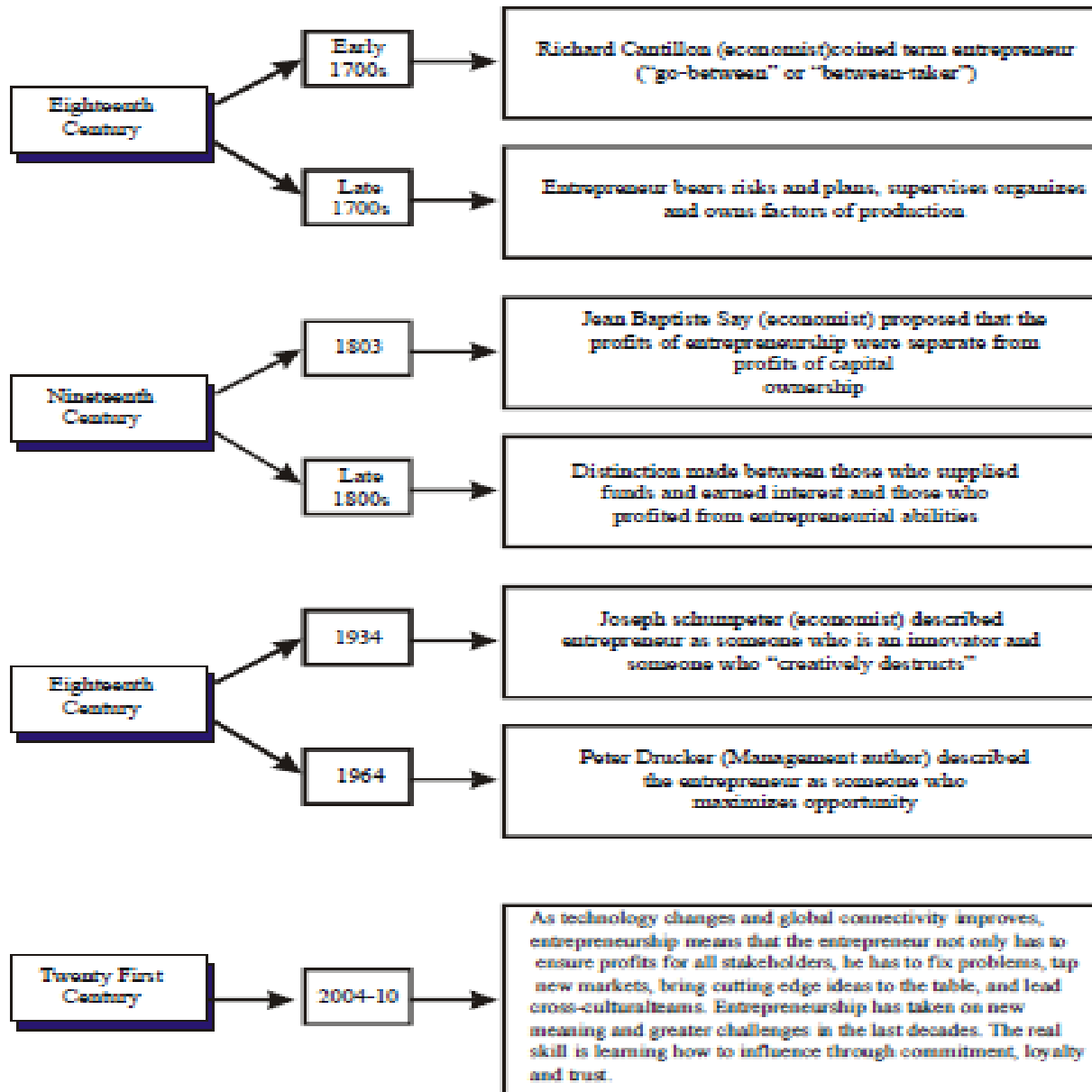
- Critically discuss the evolution of entrepreneurship from the 17<sup>th</sup> Century, 18<sup>th</sup> Century, 19<sup>th</sup> Century and 20<sup>th</sup> Century

### 3.8 20<sup>th</sup> century

In this era, the focus of entrepreneurship in economic development was through innovation. This was introduced by an economist, Joseph Schumpeter in 1972. In his words, -The function of the entrepreneur is to reform or revolutionize the pattern of production by exploiting an invention or, more generally, an untried technological method of producing a new commodity or producing an old one in a new way, opening a new source of supply of materials or new outlet for products, by organizing a new industry. During the early part of the twentieth century, entrepreneurship was still believed to be distinct and different from the management of organizations. However, in the mid-1930s the concept of entrepreneurship expanded.

That's when economist Joseph Schumpeter proposed that entrepreneurship involved innovations and untried technologies or what he called creative destruction, which is defined as the process

whereby existing products, processes, ideas, and businesses are replaced with better ones. Schumpeter believed that through the process of creative destruction, old and outdated approaches and products were replaced with better ones. Through the destruction of the old came the creation of the new. He also believed that entrepreneurs were the driving forces behind this process of creative destruction.



The illustration above shows a summary of the history of entrepreneurship development from the earliest period to the 21<sup>st</sup> Century.

### 3.10 Historical and cultural context of entrepreneurship in Nigeria

This delves into the rich historical and cultural tapestry that has shaped the entrepreneurial landscape in Nigeria. Understanding the historical context and cultural nuances is crucial for students aspiring to navigate the dynamic world of entrepreneurship in this diverse and vibrant African nation.

Explore the historical roots of entrepreneurship in Nigeria, from pre-colonial trade to post-independence economic activities.

**Historical Roots of Entrepreneurship in Nigeria: From Pre-Colonial Trade to Post-Independence Economic Activities**

#### 1. Pre-Colonial Trade (Before 1800s):

-Diverse Economic Activities: Nigeria's pre-colonial era was marked by a rich tapestry of economic activities. Different regions engaged in trade, agriculture, craftsmanship, and local industries.

- Trans-Saharan Trade: The North was involved in trans-Saharan trade routes, exchanging goods like salt, gold, and textiles with North African and Middle Eastern civilizations.

- Coastal Trading Communities: Coastal communities engaged in maritime trade, exchanging goods with European traders along the Gulf of Guinea.

#### 2. Colonial Era (Late 1800s - 1960):

- Impact of Colonial Rule: British colonization significantly transformed Nigeria's economic landscape. The British established trade routes, exploited natural resources, and introduced cash crops for export.

- Emergence of Modern Entrepreneurship: The colonial period witnessed the emergence of modern entrepreneurship as individuals engaged in trade, transportation, and agriculture. Indigenous entrepreneurs adapted to the changing economic environment.

#### 3. post-Independence (1960 Onward):

- Agricultural Entrepreneurship: In the post-independence era, agriculture remained a significant entrepreneurial pursuit. Entrepreneurs engaged in cash crop farming, livestock rearing, and agribusiness.

- Oil Boom and Economic Shift: The discovery of oil in the 1950s led to an economic shift. Nigeria experienced an oil boom in the 1970s, with increased government revenue. This period saw the rise of entrepreneurs in the oil and gas sector.

- Entrepreneurial Challenges: Despite economic growth, entrepreneurs faced challenges such as political instability, corruption, and inadequate infrastructure. These challenges influenced the types of businesses that thrived.

#### 4. Transition to a Service Economy (Late 20th Century - Present):

- Technology and Innovation: In recent decades, entrepreneurship has been influenced by technological advancements. Tech entrepreneurs have emerged, leveraging innovations to create startups in areas such as fintech, e-commerce, and information technology.

- Youth Entrepreneurship: Nigeria has a youthful population, and the youth have increasingly become involved in entrepreneurship. Initiatives and programs have been introduced to support youth-led startups.

- Diversification Efforts: With a recognition of the risks associated with oil dependence, there have been efforts to diversify the economy. Entrepreneurs are exploring opportunities in sectors like renewable energy, manufacturing, and services.

#### 5. Cultural Influences on Entrepreneurship:



- Entrepreneurial Spirit in Nigerian Culture: Nigerian culture places value on enterprise, hard work, and resilience. Traditional occupations and crafts have often been passed down through generations, contributing to a strong entrepreneurial spirit.

### 3.11 Summary

In this unit, we have discussed the evolution of entrepreneurship. We have discussed the history starting from the earliest period, Middle East, 17<sup>th</sup> century, 18<sup>th</sup> century, 19<sup>th</sup> century 20<sup>th</sup> century and the historical and cultural context of entrepreneurship in Nigeria. The summary of the entrepreneurship development and evolution was also identified.

### 3.12 REFERENCES

- John S.M. (1923). *Principles of Political Economy*, Ashley Edition, London, p 218.
- Mc Clelland D.(1961). *The Achieving Society*, Van Nostrand Company Inc. Princeton. New Jersey.
- Menger, C.(1950). *Principles of Economics*, translated by Dingwall J.and Hoselitz D.F. Free Press, GlencoeIL. pp.8–14, 56–57.
- Say J.B.(1845). *A treatise on Political Economy*, 4th ed., translated by Prinsep C.R. Grigg & Elliot, Philadelphia, pp.99–100, 127, 330–332.
- Schumpeter, J. A.(1934). *The Theory of Economic Development*, translated by Opie R. Harvard University Press, Cambridge,MA., pp 42–46, 78–89.\
- Smith, A.(1776). *Inquiry into the nature and causes of the wealth of Nations*, originally printed in Glasgow, Scotland, reprinted as *The Wealth of Nations*, Random House, New York, 1937. pp 48-49, 86, 114.

Hisrich, R. D., Peters, M. P., & Shepherd, D. A. (2019). *Entrepreneurship* (10th ed.).

McGraw-Hill Education.

Shane, S., & Venkataraman, S. (2000). *The Promise of Entrepreneurship as a Field of Research*.

Academy of Management Review, 25(1), 217-226.

### **Journals and Articles:**

Journal of Business Venturing  
 Entrepreneurship Theory and Practice  
 Strategic Entrepreneurship Journal

## **3.13 POSSIBLE ANSWERS TO SELF- ASSESSMENT EXERCISES**

### **ANSWERS TO SAEs 1**

#### **Evolution of the Concept of Entrepreneurship**

The concept of entrepreneurship was first established in the 1700s, and the meaning has evolved ever since. The concept entrepreneur is derived from the French concept –entreprenneur which literally is equivalent to the English concept–to undertake or go-between “. Entrepreneurship has been traced from the earliest period to Middle East, 17<sup>th</sup> century down to 21<sup>st</sup> century.

During this period, Marco polo who was an Italian acted as a go-between. He made attempts to trade routes to the Far East. As a go-between, he had to sign a contract with a money person to sell his goods while as a merchant; he took active role in trading by bearing all the physical and emotional risks involved in the venture.

#### **Middle East**

During this era, the term entrepreneur “was used to describe both an actor and a person who manages large production task or projects. In this era, individuals do not take any risks because all the resources used are provided by the government of the country, and the entrepreneur does

is to manage it. The entrepreneur is seen as a custodian of government resources and also as a priest.

## **ANSWERS TO SAEs 2**

### **3.6 17<sup>th</sup> century**

The connection of the risk with entrepreneurship was developed in the 17th century. During this era, an entrepreneur was a person who entered into a contract with the government to perform a service or to supply stipulated products. An example of an entrepreneur during that period is John Law, a Frenchman. He was the founder of the royal bank of France and the Mississippi Company, which had an exclusive franchise to trade between France and the new world. Richard Cantillon, an English man, first adopted the word entrepreneur to describe a risk bearer when he observed that merchants, farmers, craftsmen, and other sole proprietors buy at a certain price and sell at an uncertain price, therefore operating at a risk.

### **3.7 18<sup>th</sup> century**

In this era, the concept of entrepreneurship was viewed as capital demand and use, and the entrepreneur as one who made use of capital for his invention for commercial purposes. The person with capital was differentiated from the one who needed capital hence; the entrepreneur was distinguished from the capital provider. A major reason for this differentiation was as a result of the industrial revolution. Many of the inventors during this time were Eli Whitney and Thomas Edison. They both developed new technologies but were unable to finance their inventions themselves. Both Edison and Whitney were capital users (entrepreneurs), not providers (venture capitalists)

### **3.7 19<sup>th</sup> Century**

Late in the eighteenth century, the concept of entrepreneurship was expanded to include not only the bearing of 19<sup>th</sup> century:

Entrepreneurs were viewed from an economic and managerial perspective. The entrepreneur organizes and operates enterprise for personal gain. He was seen as someone who combined the factors of production (such as land, machine, labour, capital, skills, personal initiatives and ingenuity) in planning, organizing, and administering the enterprises. He also assumes the chance of loss and gain consequent to unforeseen and uncontrollable circumstances. The entrepreneur retains for himself the net residue of the annual receipts of the enterprises after all costs have been paid. The nineteenth century was a fertile time for entrepreneurial activity because technological advances during the industrial revolution provided the impetus for continued inventions and innovations. Then, toward the end of the nineteenth century, the concept of entrepreneurship changed slightly again to distinguish between those who supplied funds and earned interest and those who profited from entrepreneurial abilities.

## **Module 2**

### **Unit 1: ECONOMIC SCHOOL OF ENTREPRENEURSHIP**

#### Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 Classical Theory
- 1.4 Neo-Classical Theory
- 1.5 Austrian Process Market
- 1.6 Summary
- 1.7 References/Further Readings/Web Resources

#### **1.1 Introduction**

Theories are framework which serves as a guide to a particular subject matter. Various theories of entrepreneurship have emerged which has led to the development of the entrepreneurship field. In the last unit we discussed the evolution of entrepreneurship. We have discussed the history starting from the earliest period, Middle East, 17<sup>th</sup> century, 18<sup>th</sup> century, 19<sup>th</sup> century and the 20<sup>th</sup> century. This unit will introduce you to the earliest theory of entrepreneurship hic started far back in the early 18<sup>th</sup> century. This school has been able to introduce the perception of an entrepreneur from the economic perspective.

The term ‘entrepreneur’ seems to have been introduced into economics by Cantillon which was variously translated into English as ‘merchant’, ‘adventurer’ and ‘employer’, which means ‘the undertaker of a project’ but Say (1803) first accorded the entrepreneur prominence. The term was later popularized by James Stuart Mill in England. The economic theory of entrepreneurship considers the relationship between economic conditions and incentives to arrive at a risk-reward equation that informs a determination on whether or not to pursue a potential venture. This

theory assumes that the entrepreneur is the one responsible for pulling resources, labour, materials and other assets together in order to make their value greater than before, and also introduce changes, innovations, creativity and a new order.

### **Features of Economic Theory of Entrepreneurship**

- Entrepreneurship and economic growth take place when the economic conditions are favorable.
- Economic incentives are the main motivations for entrepreneurial activities.
- Economic incentives include taxation policy, industrial policy, sources of finance and raw material, infrastructure availability, investment and marketing opportunities, access to information about market conditions, technology etc.

Economic theories of entrepreneurship tend to understand business ventures in terms of an innovator purchasing several factors of a product at a bulk rate, combining them for resale at a higher rate but in the face of unknown market conditions.

Economic factors that encourage or discourage entrepreneurship include:

- taxation policy
- industrial policy
- easy availability of raw materials
- easy access to finance on favorable terms
- access to information about market conditions
- availability of technology and infrastructure
- marketing opportunities.

## Self-Assessment Exercises 1

1. What are the assumptions of the economic school of entrepreneurship.
2. Critically discuss economic factors that can lead to the end of entrepreneurial pursuit.
3. Trace the historical background of the economic school of entrepreneurship

The economic theory of entrepreneurship is sub-divided into three namely; Classical theory, Neo-classical and Austrian Market Process

### 1.2 Learning Outcomes

By the end of this unit, you will be able to:

- Describe who an entrepreneur is from the economic school of entrepreneurship
- Discuss features/Assumptions of the economic theory of entrepreneurship
- Identify economic factors that discourage or encourage entrepreneurship
- Describe the classical, neoclassical and Austrian market process in the economic theory entrepreneurship

### 1.3 Classical Theory

The classical theory inscribed the virtues of free trade, specialization which was a result of Britain's industrial revolution which took place in the mid-1700 and lasted until the 1830s. The classical movement described the role of the entrepreneur in the context of production and distribution of goods in a competitive marketplace (Say, 1803). Classical theorists articulated three modes of production: land; capital; and labour. There have been various objections to the classical theory. These theorists failed to explain the dynamic upheaval generated by entrepreneurs of the industrial age (Murphy, Liao & Welsch, 2006).

### **1.4 Neo-classical Theory**

The neo-classical model emerged from the criticisms of the classical model and indicated that economic phenomena could be relegated to instances of pure exchange, reflect an optimal ratio, and transpire in an economic system that was basically closed. The economic system consisted of exchange participants, exchange occurrences, and the impact of results of the exchange on other market actors. The importance of exchange coupled with diminishing marginal utility created enough impetus for entrepreneurship in the neoclassical movement (Murphy, Liao & Welsch, 2006).

Some criticisms were raised against the neo-classical conjectures. The first is that aggregate demand ignores the uniqueness of individual-level entrepreneurial activity. Furthermore, neither use nor exchange value reflects the future value of innovation outcomes. Thirdly, rational resource allocation does not capture the complexity of market-based systems. The fourth point raised was that, efficiency-based performance does not subsume innovation and non-uniform outputs; known means/ends and perfect or semi-perfect knowledge does not describe uncertainty. In addition, perfect competition does not allow innovation and entrepreneurial activity. The fifth point is that, it is impossible to trace all inputs and outputs in a market system. Finally, entrepreneurial activity is destructive to the order of an economic system.

### **1.5 Austrian Market Process (AMP)**

These unanswered questions of the neo-classical movement led to a new movement which became known as the Austrian Market process (AMP). The AMP, a model influenced by Joseph Alois Schumpeter (1934) concentrated on human action in the context of an economy of knowledge. Schumpeter (1934) described entrepreneurship as a driver of market-based systems. In other words, an important function of an enterprise was to create something new which resulted in processes that served as impulses for the motion of market economy.



## Self-Assessment Exercises 2

1. what were the major themes of each school of thought from the economic school of entrepreneurship

### 1.5 Summary

In this unit, we have been able to extensively discuss;

- the entrepreneur according to the economic school of entrepreneurship
- explain the assumptions of the economic theory of entrepreneurship
- discuss economic factors that can lead to the growth or decline of entrepreneurship
- discuss other sub-theories from the economic theory

The economic school of entrepreneurship considers the relationship between economic conditions and incentives in order to arrive at a risk-reward equation that informs a determination whether or not to pursue a potential venture. The school saw an entrepreneur as a merchant, adventurer and an employer. The school was able to state the underlining economic factors that can lead to the growth or decline of an entrepreneurial venture amongst such are taxation policy, exchange rate and so on. The economic school is also subdivided into the classical school, neo- classical and Austrian process market which serves an addition to the general framework.

### 1.6 References/Further Readings/Web Resources

Bathia,.D.(2013). Theories of entrepreneurship. Retrieved from

<http://slideshare/theoriesof entrepreneurship.html>

Desai, V. (2009). *The Dynamics of Entrepreneurial Development and Management*

– *Planning for Future Sustainable Growth*. India: Himalaya

Kwabena, N.S. (2011). Entrepreneurship theories and empirical research: A summary review of the literature. *European Journal of Business and Management*, 3(6), 1-9

Linden, P.(2015). Entrepreneurship: Theory and Application in a University Arts Management Setting. *Professional Work - Communication*. Paper 138.

Murphy, J.P, Liao, J & Welsch, P.H.(2006). A Conceptual history of entrepreneurial thought. *Journal of Management History*. 12, 9-24.

Sharma, Balraj, & Sandeep (2005). *Entrepreneurship Development*. Delhi : Wisdom Publications.

Badi, R.V. & Badi N.V. (2010). *Entrepreneurship*. Delhi: Vrinda Publications (P) Ltd.

Ynkamat,O.(2009).Theories of entrepreneurship.Retrieved from <http://scrib.com/theoriesofentrepreneurship>

## **1.7 POSSIBLE ANSWERS TO SELF- ASSESSMENT EXERCISES**

### **ANSWERS TO SAEs 1**

#### **Features of Economic Theory of Entrepreneurship**

- Entrepreneurship and economic growth take place when the economic conditions are favorable.
- Economic incentives are the main motivations for entrepreneurial activities.
- Economic incentives include taxation policy, industrial policy, sources of finance and raw material, infrastructure availability, investment and marketing opportunities, access

to information about market conditions, technology etc.

Economic theories of entrepreneurship tend to understand business ventures in terms of an innovator purchasing several factors of a product at a bulk rate, combining them for resale at a higher rate but in the face of unknown market conditions.

## ANSWERS TO SAEs 2

Economic factors that encourage or discourage entrepreneurship include:

- taxation policy
- industrial policy
- easy availability of raw materials
- easy access to finance on favorable terms
- access to information about market conditions
- availability of technology and infrastructure
- marketing opportunities.

**Historical Background:** Theories are framework which serves as a guide to a particular subject matter. Various theories of entrepreneurship have emerged which has led to the development of the entrepreneurship field. In the last unit we discussed the evolution of entrepreneurship. We have discussed the history starting from the earliest period, Middle East, 17<sup>th</sup> century, 18<sup>th</sup> century, 19<sup>th</sup> century and the 20<sup>th</sup> century. This unit will introduce you to the earliest theory of entrepreneurship which started far back in the early 18<sup>th</sup> century. This school has been able to introduce the perception of an entrepreneur from the economic perspective.

- The term ‘entrepreneur’ seems to have been introduced into economics by Cantillon which was variously translated into English as ‘merchant’, ‘adventurer’ and ‘employer’, which means ‘the undertaker of a project’ but Say (1803) first

accorded the entrepreneur prominence. The term was later popularized by James Stuart Mill in England. The economic theory of entrepreneurship considers the relationship between economic conditions and incentives to arrive at a risk-reward equation that informs a determination on whether or not to pursue a potential venture. This theory assumes that the entrepreneur is the one responsible for pulling resources, labour, materials and other assets together in order to make their value greater than before, and also introduce changes, innovations, creativity and a new order.

### **ANSWERS TO SAEs 3**

#### **Classical Theory**

The classical theory inscribed the virtues of free trade, specialization which was a result of Britain's industrial revolution which took place in the mid-1700 and lasted until the 1830s. The classical movement described the role of the entrepreneur in the context of production and distribution of goods in a competitive marketplace (Say, 1803). Classical theorists articulated three modes of production: land; capital; and labour. There have been various objections to the classical theory. These theorists failed to explain the dynamic upheaval generated by entrepreneurs of the industrial age (Murphy, Liao & Welsch, 2006).

#### **1.4 Neo-classical Theory**

The neo-classical model emerged from the criticisms of the classical model and indicated that economic phenomena could be relegated to instances of pure exchange, reflect an optimal ratio, and transpire in an economic system that was basically closed. The economic system consisted of exchange participants, exchange occurrences, and the impact of results of the exchange on other market actors. The importance of exchange coupled with diminishing marginal utility

created enough impetus for entrepreneurship in the neoclassical movement (Murphy, Liao & Welsch, 2006).

Some criticisms were raised against the neo-classical conjectures. The first is that aggregate demand ignores the uniqueness of individual-level entrepreneurial activity. Furthermore, neither use nor exchange value reflects the future value of innovation outcomes. Thirdly, rational resource allocation does not capture the complexity of market-based systems. The fourth point raised was that, efficiency-based performance does not subsume innovation and non-uniform outputs; known means/ends and perfect or semi-perfect knowledge does not describe uncertainty. In addition, perfect competition does not allow innovation and entrepreneurial activity. The fifth point is that, it is impossible to trace all inputs and outputs in a market system. Finally, entrepreneurial activity is destructive to the order of an economic system.

### **1.5 Austrian Market Process (AMP)**

These unanswered questions of the neo-classical movement led to a new movement which became known as the Austrian Market process (AMP). The AMP, a model influenced by Joseph Alois Schumpeter (1934) concentrated on human action in the context of an economy of knowledge. Schumpeter (1934) described entrepreneurship as a driver of market-based systems. In other words, an important function of an enterprise was to create something new which resulted in processes that served as impulses for the motion of market economy.

**Unit 2: PSYCHOLOGICAL SCHOOL OF ENTREPRENEURSHIP**

## Unit Structure

- 2.1 Introduction
- 2.2 Learning Outcomes
- 2.3 Personality Traits
  
- 2.4 Need for Achievement
  
- 2.5 Locus of Control
  
- 2.6 Psychodynamic Model
- 2.6 Risk Taking Propensity
  
- 2.8 Summary
- 2.9 References/Further Readings/Web Resources
- 2.10 Possible Answers to Self-Assessment Exercise(s) within the content

**2.1 Introduction**

Psychological theory of entrepreneurship identifies traits, motives and personalities as the major factors that infuse the entrepreneurial spirit in an individual. The theory emphasizes personal characteristics that define entrepreneurship. Personality traits, need for achievement and locus of control are found to be associated with entrepreneurial inclination. In the last unit, the economic school of entrepreneurship considers the relationship between economic conditions and incentives in order to arrive at a risk-reward equation that informs a determination on whether or not to pursue a potential venture. The school saw an entrepreneur as a merchant, adventurer and an employer. This unit will present the second major theory of entrepreneurship which is psychological theories of entrepreneurship. Psychological entrepreneurship theories explain how personalities or trait of an individual transcend into his/her entrepreneurial pursuit. This can be both positively or negatively.

Psychological theory of entrepreneurship identifies traits, motives and personalities as the major

factors that infuse the entrepreneurial spirit in an individual. The theory emphasizes personal characteristics that define entrepreneurship. Personality traits, need for achievement and locus of control are found to be associated with entrepreneurial inclination. The psychological theory which focuses on personality factors, believes that entrepreneurs have unique values and attitude towards work and life. Psychological attributes differentiate entrepreneurs from non-entrepreneurs, and successful entrepreneurs from unsuccessful ones. The psychological theories are;

- i. Personality trait
- ii. Need for achievement
- iii. Locus of control
- iv. Psychodynamic model
- v. Risk taking propensity.

## **2.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Discuss over view of psychological theory
- Analyse personality trait
- Explain Need for achievement (observation/Criticism)
- Identify Locus of Control (Observation/Criticism)
- Discuss Psychodynamic Model (Observation/Criticism)
- Explain Risk Taking Propensity (Observation/Criticism)

## **2.3 Personality Trait**

According to the personality trait theory (2004), Personality trait is defined as stable qualities that a person shows in most situations. Personality traits are the enduring inborn qualities or potentials of the individual that naturally make him/her an entrepreneur. Some of the traits which entrepreneur exhibits include vision, enthusiastic, optimistic, flexible, open mindedness, and versatility amongst others.

## 2.4 Need for achievement model

The need for achievement theory was propounded by McClelland (1961). The theory explained that human beings have a need to succeed, accomplish, excel or achieve. Entrepreneurs are usually driven by this need to achieve and excel. This theory states that people desire to achieve something for their inner feeling of accomplishment.

### Observation/ Criticisms

This theory has been criticized as a result of the following;

- i. The theory is contradictory and has limited evidence
- ii. It has no direction for causality
- iii. The theory is more applicable to the western culture where personal achievement is more appreciated as compared to other culture
- iv. It is limited only to business people while other people also show that behavior.

### Self-Assessment Exercises 1

- |  |
|--|
| 1. Discuss the observation and criticism of the need for achievement |
|--|

## 2.5 Locus of control

Locus of control was first introduced by Julian Rotter in the 1950s. Rotter (1966) refers to Locus of Control as an individual 's perception about the underlying main causes of events in his/her life. Locus of control orientation is a belief about whether the outcomes of our actions are contingent on what we do (internal control orientation) or on events outside our personal control (external control orientation). Entrepreneur's success comes from his/her own abilities and also



support from outside. This theory states that there is a degree to which one believes that he/she is in control of one's destiny. This can either be internal or external locus of control.

- Internal Locus of control: individuals with an internal locus of control believe that they are able to control life events
- External locus of control: individual with an external locus of control believe that life's events are the result of external factors, such as chance, luck or fate.

#### Observation/Criticism

- This theory correlates to the need for achievement theory (n-ach). Individuals with internal locus of control people are the ones who are interested in need for achievement than the externals.
- Directions of causality i.e. people tend to work harder when getting success thus have internal locus of control.
- Culture and belief system; i.e. there are societies which their belief system make them more externals (for example, those who believe that God will do everything for them).
- Being internal is not always the best (An individual cannot always be in-charge of everything such as weather and other peoples' behavior).
- Locus of control (LOC) has negative influence on entrepreneurial inclination.

#### Self-Assessment Exercises 2

1. Critically discuss locus of control as it applies  
psychological theory of entrepreneurship

### 2.6 Psychodynamic Model

This model was propounded by Kets de Vries. The model is concerned with how people tend to be self-employed and become successful because of their -troubled childhood. In troubled

childhood, children tend to be abused, with low self-esteem, and lack of confidence. Therefore, an individual growing in such an environment does have reserved wishes towards those in control.

#### Observations/criticism

- I. This theory explains the behavior of extreme category of people leaving out the rest.
- II. Some people with similar background do not show innovative rebelliousness. Some tend to be criminals and/or drug addicts or alcoholics.

#### Self-Assessment Exercises 3

1. Examine and discuss the psychodynamic model

#### **2.7 Risk Taking**

This theory contends about one's willingness to accept risk. People who are more likely to accept risk and taking chances are more likely of being self-employed than those who do not take risk.

#### Observations/Criticism

- I. People tend to say that —they take the profit and pass the risk to someone else.
- II. People who take risks normally take a –calculated risk and do not gamble.
- III. People who are success in business are moderate risk takers.
- IV. Risk is not only a financial loss, but also image loss or loss of relationship with other people in the society.

## 2.7 Summary

From this unit, we have discussed the following;

- overview of the psychological theory
- personality trait
- need for achievement (Observation/Criticism)
- locus of control(observation/criticism)
- psychodynamic model(observation/criticism)
- risk taking propensity(observation/criticism)

The psychological theory looks at the attitude, traits as imbedded in entrepreneurship. The theories discussed under the study are the personality traits, risk-taking propensities, locus of control, psychodynamic model and need for achievement with both the criticism and observations.

## 1.8 References/Further Readings/Web Resources

Brockhaus, R.H. (1980). Risk taking propensity of entrepreneurs.

*Academy of Management Journal*, 23,509-520.

Coon, D. (2004). *Introduction to Psychology* (9th Ed). Minneapolis:

West Publishing Company

Kwabena, N.S. (2011). Entrepreneurship theories and empirical research:

A summary review of the literature. *European Journal of Business and Management*, 3(6), 1-9

Landstrom, H. (1998). *The Roots of Entrepreneurship Research*,

Conference proceedings, Lyon, France, November 26-27.

McClelland, D.C. (1961). *The Achieving Society*. NJ: Van Nostrand, Princeton

Mitchell, R.K., Smith, J.B., Morse, E.A., Seawright, K.W., Peredo, A., & McKenzie, B. (2002). Are entrepreneurial cognitions universal? assessing entrepreneurial cognitions across cultures. *Entrepreneurship, Theory and Practice*, 9-32.

Mohar, Y .M .S, Singh, J & Kishore, K. (2007). Relationship between psychological characteristics and entrepreneurial inclination: A Case Study of Students at University Tun Abdul Razak. *Journal of Asia Entrepreneurship and Sustainability*, 8 ProQuest Information and Learning Publishers

Rotter, J. (1966). Generalised expectancies for internal versus external control reinforcements, *Psychological Monographs*, 80, Whole No.609.

Shaver, K.G & Scott, L.R. (1991). Person, process, choice: the psychology of new venture creation. *Entrepreneurship Theory & Practice*, 16, 23-45.

## **1.9 POSSIBLE ANSWERS TO SELF- ASSESSMENT EXERCISES**

### **ANSWERS TO SAEs 1**

#### **Need for achievement model**

The need for achievement theory was propounded by McClelland (1961). The theory explained

that human beings have a need to succeed, accomplish, excel or achieve. Entrepreneurs are usually driven by this need to achieve and excel. This theory states that people desire to achieve something for their inner feeling of accomplishment.

#### Observation/ Criticisms

This theory has been criticized as a result of the following;

- i. The theory is contradictory and has limited evidence
- ii. It has no direction for causality
- iii. The theory is more applicable to the western culture where personal achievement is more appreciated as compared to other culture
- iv. It is limited only to business people while other people also show that behavior.

### **ANSWERS TO SAEs 2**

#### **2.8 Locus of control**

Locus of control was first introduced by Julian Rotter in the 1950s. Rotter (1966) refers to Locus of Control as an individual 's perception about the underlying main causes of events in his/her life. Locus of control orientation is a belief about whether the outcomes of our actions are contingent on what we do (internal control orientation) or on events outside our personal control (external control orientation). Entrepreneur's success comes from his/her own abilities and also support from outside. This theory states that there is a degree to which one believes that he/she is in control of one's destiny. This can either be internal or external locus of control.

- Internal Locus of control: individuals with an internal locus of control believe that they are able to control life events
- External locus of control: individual with an external locus of control believe that life's

events are the result of external factors, such as chance, luck or fate.

### **ANSWERS TO SAEs 3**

#### **Psychodynamic Model**

This model was propounded by Kets de Vries. The model is concerned with how people tend to be self-employed and become successful because of their -troubled childhood. In troubled childhood, children tend to be abused, with low self-esteem, and lack of confidence. Therefore, an individual growing in such an environment does have reserved wishes towards those in control.

#### Observations/criticism

- III.** This theory explains the behavior of extreme category of people leaving out the rest.
- IV.** Some people with similar background do not show innovative rebelliousness. Some tend to be criminals and/or drug addicts or alcoholics.

### **Unit 3: SOCIOLOGY THEORY OF ENTREPRENEURSHIP**

#### Unit Structure

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 Sociological theory of entrepreneurship
  - 3.3.1 Assumptions of the Sociological theory of entrepreneurship
- 3.4 The social marginality model
- 3.5 Ethnicity
- 3.6 Inter-Generational Inheritance of Enterprise Culture
- 3.7 Critique of the sociological theory of entrepreneurship
- 3.8 Summary
- 3.9 References/Further Readings/Web Resources
- 3.10 Possible Answers to Self-Assessment Exercise(s) within the content

#### **3.1 Introduction**

We discuss in the previous unit the psychological theories of entrepreneurship. In this unit, we shall look at the sociological theory of entrepreneurship. The theory is concerned about the social context which will be discussed in this unit. Other component of the sociological theory will also be discussed effectively.

#### **3.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Discuss Sociological theory of entrepreneurship
- Identify social context in relation to entrepreneurship
- Demonstrate ...Describe how ethnicity affect entrepreneurship
- Explain the role of Inter-Generational Inheritance of Enterprise Culture
- Critique of the sociological theory of entrepreneurship
-

### 3.3 Sociological Theory of Entrepreneurship

The sociological theory is the third of the major entrepreneurship theories. Sociological enterprise focuses on the social context. Reynolds (1991) has identified four social contexts that relates to entrepreneurial opportunity.

- i. The social networks: The social network focuses on building social relationships and bonds that promote trust and not opportunism. In other words, the entrepreneur should not take undue advantage of people in order to be successful.
- ii. The life course stage: This involves analyzing the life situations and characteristic of individuals who has decided to become an entrepreneur. The experiences of people influence their thought and action which motivates them to do something meaningful with their lives.
- iii. The ethnic identification. One 's sociological background is one of the decisive –push factors to become an entrepreneur.

The population ecology. Environmental factors play a vital role in the survival of businesses. The political system, government legislation, customers, employees and competition are some of the environmental factors that have an effect on the survival of new venture or the success of the entrepreneur.

The sociological theory of entrepreneurship embraces social culture as a driving force of entrepreneurship. The entrepreneur becomes a role player in agreement with the role expectations of the society, and such role expectations are based on religious beliefs, taboos, and customs. Sociological models that have received significant empirical support are the inter- generation inheritance of enterprise culture, social marginality and ethnicity.



### 3.3.1 Assumptions of the Sociological theory of entrepreneurship

- Entrepreneurship is likely to get a boost in a particular social culture
- Society 's values, religious beliefs, customs, taboos influence the behavior of individuals in a society.
- The entrepreneur is a role performer according to the role expectations by the society.

#### Self-Assessment Exercises 1

1. Discuss the sociological theory of entrepreneurship

### 3.4 Social marginality model

This theory suggests that individuals who recognize a strong level of incongruence between their personal attributes and the role they hold in society will be motivated to change or reconstruct their social reality. Some individuals may reconstruct their reality by changing careers, employers, or result to self-employment.

Marginal men are referred as individuals who are less included or integrated in their society. Marginal men are usually not completely part of the society of their adoption as such; they are free of the restrictions imposed by the value system governing the society. At the same time, having left their own society, they are no longer constrained by its dominant values. This situation brings about the development of unconventional patterns of behavior, which increases their propensity to become entrepreneurs.

#### Observations/Criticism

- i. Marginality is not an adequate explanation for the over-representation of certain people in entrepreneurship carriers e.g. Hispanics and Africans are underrepresented

- in entrepreneurship despite them being marginal.
- ii. Aggressiveness and co-operation is an attribute in which marginal people tend to have.

#### Self-assessment exercise 2

1. Identify and explain the social marginality model

### 3.5 Ethnicity

An ethnic origin of a person is said to influence the choice between paid employment and self-employment as well as performance in self-employment. Evidence of over-representation of certain ethnic groups in business carriers abounds throughout the world. The ethnic groups often quoted in the literature as being overrepresented in entrepreneurship include Ibos in Nigeria, Kikuyus in Kenya and Chagga in Tanzania. All of these are spread in different parts of their countries in which they over-represented in entrepreneurial careers. To this extent, they are less integrated in the societies in which they work and therefore less likely to be constrained by dominant values shared either by their own ethnic group or by their hosts.

#### Observations/Criticism

It has been found that, even members of these groups (Ibo, Kikuyu and Chagga) who have remained in their homelands are quite active in entrepreneurship. Therefore their cultures must have influenced their entrepreneurial behavior rather than ethnicity.

### 3.6 Inter-Generational Inheritance of Enterprise Culture

This theory asserts that entrepreneurial practice is largely inherited. Consequently, offspring 's of entrepreneurial parents are more likely to become entrepreneurs and more successful as compared to others. A strong grounding in business and ownership ethic at an early age is a very

vital tool and powerful driving force for children as they choose their future careers. An individual who grows up around a family that runs and own a business is likely to benefit from the skills, accumulated experiences and networks of existing firm. Such an individual will have better access to advice, credit, established markets and sources of inputs.

### **Observations/ Criticisms**

- i. Several studies supports this theory, however studies on female entrepreneurship found that most of them were first generation entrepreneurs and none of their parents have been running their own business.

Other studies also found that there is no significant difference between entrepreneurs and managers in terms of having self-employed parents. However this is the most supported sociological model.

### **3.7 Critique of Sociological Studies of Entrepreneur**

Sociologists 'approach is seen to be mono-casual and fails to generalize the theory to explain the reasons all those who belong to their chosen classes (for example; like those belonging to selected religious/ethnic, social minorities etc) are not entrepreneurs. Sociological theory of entrepreneurship also failed to explain all aspects of entrepreneurship (for instance; explaining the reasons all Protestants or those belong to marginal group) do not pursue entrepreneurship. Those belonging to the school of Evolutionary Approach try to explain the environmental conditions that favour entrepreneurship development.

#### **Self-Assessment Exercises 3**

1. Identify and discuss the critique of the sociological theory
---

### 3.8 Summary

In this unit, we have been able to discuss;

- Sociological theory of entrepreneurship
- Identification of the four social context
- The social marginality model
- Ethnicity
- Inter-Generational Inheritance of Enterprise Culture
- Critique of the sociological theory of entrepreneurship

### 3.9 References

Ardichvilia, A. R., & Ray S. (2000). A theory of entrepreneurial opportunity identification and development, *Journal of Business Venturing*, 18, 105– 123

Bygrave W. D. & Hofer C. W. (1991), Theorizing about Entrepreneurship. *Entrepreneurship Theory and Practice*, 11-22

Carroll, G.R. & O.M. Khessina. (2005). The Ecology Of Entrepreneurship, *Handbook of Entrepreneurship Research: Disciplinary Perspectives*, Chapter 8: 167-200, Springer.

Kalantaridis, C. (2004). *Understanding the Entrepreneur: An institutionalist perspective*, Ashgate Publishing Ltd., England

Karayiannis A. D. (2002), A Synthesized Theory of Entrepreneurship  
<http://www.econ.uoa.gr/UA/files/1788245897..pdf>

Khalil, E. (2006). *Entrepreneurship and Economic Theory* MPRA Paper No. 501,

posted 07.

Lehtinen U. et. Al.(Social Entrepreneurship In The Field Of Recycling: How To Develop Profitable Business With Social Impacts?  
<http://www.kotu oulu.fi/sytrim/turku.pdf>

Madge N. & Barker J. (2007) Risk & childhood, The Royal Society for the encouragement of Arts, Manufactures & Commerce, London. Retrieved from [http://www.leedsinitiative.org/uploadedFiles/Children\\_Leeds/Content/Standard\\_Pages/Levels\\_of\\_Need/risk%20research.pdf](http://www.leedsinitiative.org/uploadedFiles/Children_Leeds/Content/Standard_Pages/Levels_of_Need/risk%20research.pdf)

Marshall, A. (1964). Principles of Economics. London: Macmillan and Company Limited.

Montanye, J. (2003). Entrepreneurship. *The Independent review*, X(4), November 2007 / 01:05 Online at <http://mpira.ub.uni-muenchen.de/501/>

## **1.10 POSSIBLE ANSWERS TO SELF- ASSESSMENT EXERCISES**

### **ANSWERS TO SAEs 1**

#### **Sociological Theory of Entrepreneurship**

The sociological theory is the third of the major entrepreneurship theories. Sociological enterprise focuses on the social context. Reynolds (1991) has identified four social contexts that relates to entrepreneurial opportunity.

- iv. The social networks: The social network focuses on building social relationships and bonds that promote trust and not opportunism. In other words, the entrepreneur should not take undue advantage of people in order to be successful.
- v. The life course stage: This involves analyzing the life situations and characteristic of

individuals who has decided to become an entrepreneur. The experiences of people influence their thought and action which motivates them to do something meaningful with their lives.

- vi. The ethnic identification. One 's sociological background is one of the decisive –push factors to become an entrepreneur.

The population ecology. Environmental factors play a vital role in the survival of businesses. The political system, government legislation, customers, employees and competition are some of the environmental factors that have an effect on the survival of new venture or the success of the entrepreneur.

The sociological theory of entrepreneurship embraces social culture as a driving force of entrepreneurship. The entrepreneur becomes a role player in agreement with the role expectations of the society, and such role expectations are based on religious beliefs, taboos, and customs. Sociological models that have received significant empirical support are the inter- generation inheritance of enterprise culture, social marginality and ethnicity.

### **Assumptions of the Sociological theory of entrepreneurship**

- Entrepreneurship is likely to get a boost in a particular social culture
- Society 's values, religious beliefs, customs, taboos influence the behavior of individuals in a society.
- The entrepreneur is a role performer according to the role expectations by the society.

### **ANSWERS TO SAEs 2**

#### **Social marginality model**

This theory suggests that individuals who recognize a strong level of incongruence between their personal attributes and the role they hold in society will be motivated to change or reconstruct

their social reality. Some individuals may reconstruct their reality by changing careers, employers, or result to self-employment.

Marginal men are referred as individuals who are less included or integrated in their society. Marginal men are usually not completely part of the society of their adoption as such; they are free of the restrictions imposed by the value system governing the society. At the same time, having left their own society, they are no longer constrained by its dominant values. This situation brings about the development of unconventional patterns of behavior, which increases their propensity to become entrepreneurs.

#### Observations/Criticism

- iii. Marginality is not an adequate explanation for the over-representation of certain people in entrepreneurship carriers e.g. Hispanics and Africans are underrepresented in entrepreneurship despite them being marginal.
- iv. Aggressiveness and co-operation is an attribute in which marginal people tend to have.

### **ANSWERS TO SAEs 3**

#### **Critique of Sociological Studies of Entrepreneur**

Sociologists' approach is seen to be mono-casual and fails to generalize the theory to explain the reasons all those who belong to their chosen classes (for example; like those belonging to selected religious/ethnic, social minorities etc) are not entrepreneurs. Sociological theory of entrepreneurship also failed to explain all aspects of entrepreneurship (for instance; explaining the reasons all Protestants or those belong to marginal group) do not pursue entrepreneurship. Those belonging to the school of Evolutionary Approach try to explain the environmental

conditions that favour entrepreneurship development.



## **Unit 4: INNOVATION THEORY OF ENTREPRENEURSHIP**

### Unit Structure

- 4.1 Introduction
- 4.2 Learning Outcomes
- 4.3 Overview of innovation theory
- 4.4 Function of innovation
  
- 4.5 Criticism of innovation theory
- 4.6 Observations from the innovation theory
  
- 4.7 Summary
- 4.8 References/Further Readings/Web Resources
- 4.9 Possible Answers to Self-Assessment Exercise(s) within the content

## 4.1 Introduction

The innovation theory was first advocated by Joseph Schumpeter in 1934. A dynamic theory of entrepreneurship was first advocated by Schumpeter (1949) who considered entrepreneurship as the catalyst that disrupts the stationary circular flow of the economy and thereby initiates and sustains the process of development.

In the previous unit, we were able to discuss the sociological theory of entrepreneurship. However, in this unit, we shall be discussing the innovation theory of entrepreneurship, its functions, observations from the theory and criticism.

## 4.2 Learning Outcomes

By the end of this unit, you will be able to:

- Describe an overview innovation theory
- Discuss functions of innovation theory
- Identify criticism of innovation theory
- Explain observations from innovation theory

## 4.3 Overview of innovation theory

Schumpeter introduced the concept of innovation as key factor in entrepreneurship in addition to assuming risks and organizing factors of production. Schumpeter defined entrepreneurship as –a creative activity|. An innovator who brings new products or services into economy is given the status of an entrepreneur. He regards innovation as a tool of an entrepreneur. The entrepreneur is also viewed as the \_engine of growth ‘which sees the opportunity for introducing new products, new markets, new sources of supply, new forms of industrial organization or for the development of newly discovered resources.

### Self-Assessment Exercises 1

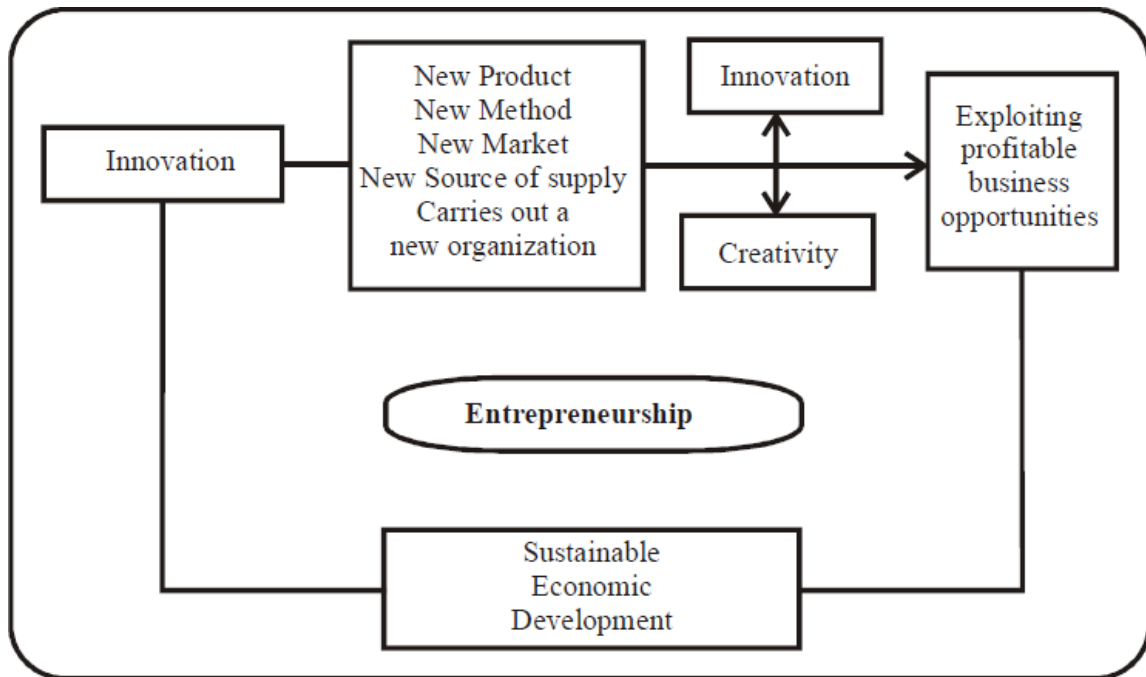
1. Discuss the innovation theory

#### 4.4 Functions of Innovation

The concept of innovation and its corollary development embraces five functions:

- i. The introduction of a new product with which consumers are not yet familiar or introduction of a new quality of an existing product,
- ii. The introduction of new method of production that is not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new and can also exist in a new way of handling a commodity commercially,
- iii. The opening of new market that is a market on to which the particular branch of manufacturer of the country in question has not previously entered, whether or not this market has existed before,
- iv. Conquest of a new source of supply of raw material and
- v. The carrying out of the new organisation of any industry.

Schumpeter is the first major theorist to put the human agent at the centre of the process of economic development. He is very explicit about the economic function of the entrepreneur. The entrepreneur is the prime mover in economic development; his function, to innovate or carry out new combinations. Schumpeter makes a distinction between an innovator and an inventor. An inventor discovers new methods and new materials. On the contrary, an innovator is one who utilises or applies inventions and discoveries in order to make new combinations. An inventor is concerned with his technical work of invention whereas an entrepreneur converts the technical work into economic performance. An innovator is more than an inventor because he does not only originate as the inventor does but goes much farther in exploiting the invention commercially.



Wilken added the concept of the changes that an entrepreneur brings which includes;

- i. Expansion of goods, products.
- ii. Productivity of factors of production such as finance, labour, material.
- iii. Innovation in production such as, technology, process changes and increase in human resource productivity.
- iv. Innovation in marketing area such as the composition of the market, size of the market and new markets.

According to Schumpeter, entrepreneurs are individuals motivated by a will for power; their special characteristic being an inherent capacity to select correct answers, energy, will and mind to overcome fixed talents of thoughts, and a capacity to withstand social opposition.

The entrepreneur has been the major mover for economic development process.

Self-Assessment Exercises 2

1. What are the functions of the innovation theory

#### 4.5 Criticism of Innovation Theory

- i. The theory seems one-sided as it puts too much emphasis on innovative functions.
- ii. It ignores the risk taking and organizing aspects of entrepreneurship. An entrepreneur has not only to innovate but also assemble the resources and put them to optimum use.
- iii. It ignored the risk-taking function, which is equally important. When an entrepreneur develops a new combination of factors of production, there is enough risk involved.

##### Self-Assessment Exercises 3

1. Mention and explain three criticism of the innovation

#### 4.6 Observations from the Innovation Theory

The theory supports the –enterprising spiritll of entrepreneur to innovate. It is the act that endows resources with a new capacity to create wealth. Drucker says, innovation creates a resource and it is endowed with economic value. Schumpeter ‘s views are particularly applicable to developing countries where innovations need to be encouraged.

##### Self-Assessment Exercises 4

1. Are the observations from the innovation theory correct? Briefly discuss

#### 4.7 Summary

From this unit, we have been able to discuss the following;

- An overview of innovation theory
- Functions of innovation theory
- Criticism of the innovation theory
- Observations from the innovation theory

The innovation theory was propounded by Joseph Schumpeter who is regarded as father of innovation. The innovation theory looks at concept of innovation as key factor in entrepreneurship in addition to assuming risks and organising factors of production. The functions of innovation theory were described and criticism of the theory was also discussed as one of it is that it ignored the risk-taking function. Observations from the theory were taken into cognizance.

#### 4.8 References/Further Readings/Web Resources

Cherukara , J.M & Manalel , J (2011). Evolution of entrepreneurship theories through different schools of thought. The Ninth Biennial Conference on Entrepreneurship at EDI, Ahmedabad, February 16-18, 2011

Drucker Peter F 1985. *Innovation and Entrepreneurship*, Harper & Row, New York, p.143.

Murphy K., Schliefer A. & Vishny R. (1991). 'The Allocation of Talent: Implications for Growth. *Quarterly Journal of Economics*.106 (2), 503-30

Nelson R.R. & Pack H. (1999). The Asian Miracle and Modern Growth Theory. *The Economic Journal* 109 (457): 416 -36

Schumpeter J. A (1934). *The Theory of Economic Development*, translated by Opie R. Harvard University Press, Cambridge, M A., pp 42–46, 78–89.

### 1.11 POSSIBLE ANSWERS TO SELF- ASSESSMENT EXERCISES

#### ANSWERS TO SAEs 1

**Schumpeter introduced the concept of innovation** as key factor in entrepreneurship in addition to assuming risks and organizing factors of production. Schumpeter defined entrepreneurship as –a creative activity|. An innovator who brings new products or services into economy is given

the status of an entrepreneur. He regards innovation as a tool of an entrepreneur. The entrepreneur is also viewed as the \_engine of growth 'which sees the opportunity for introducing new products, new markets, new sources of supply, new forms of industrial organization or for the development of newly discovered resources.

### **ANSWERS TO SAEs 2**

The concept of innovation and its corollary development embraces five functions:

- i. The introduction of a new product with which consumers are not yet familiar or introduction of a new quality of an existing product,
- ii. The introduction of new method of production that is not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new and can also exist in a new way of handling a commodity commercially,
- iii. The opening of new market that is a market on to which the particular branch of manufacturer of the country in question has not previously entered, whether or not this market has existed before,
- iv. Conquest of a new source of supply of raw material and
- v. The carrying out of the new organisation of any industry.

### **ANSWERS TO SAEs 3**

#### **Criticism of Innovation Theory**

- i. The theory seems one-sided as it puts too much emphasis on innovative functions.
- ii. It ignores the risk taking and organizing aspects of entrepreneurship. An entrepreneur has not only to innovate but also assemble the resources and put them to optimum use.
- iii. It ignored the risk-taking function, which is equally important. When an entrepreneur

develops a new combination of factors of production, there is enough risk involved.

#### **ANSWERS TO SAEs 4**

Observations from the innovation theory correct discussed briefly below:

The theory supports the –enterprising spiritll of entrepreneur to innovate. It is the act that endows resources with a new capacity to create wealth. Drucker says, innovation creates a resource and it is endowed with economic value. Schumpeter ‘s views are particularly applicable to developing countries where innovations need to be encouraged.



## **UNIT 5 OTHER THEORIES OF ENTREPRENEURSHIP**

### Unit Structure

- 5.1 Introduction
- 5.2 Learning Outcomes
- 5.3 Max Weber theory entrepreneurial growth
- 5.4 Exposure Theory
- 5.5 Ronald Burt's Theory of Entrepreneurship
- 5.6 Opportunity-Based Entrepreneurship Theory
- 5.7 Resource- Based Entrepreneurship Theories
  - 5.7.1 Financial Capital/Liquidity Theory
  - 5.7.2 Social Capital or Social Network Theory
  - 5.7.3 Human Capital Entrepreneurship Theory
- 5.8 Risk Bearing Theory of Knight
- 5.9 Hagen's Theory of Entrepreneurship
- 5.10 Summary
- 5.11 References/Further Readings/Web Resources
- 5.12 Possible Answers to Self-Assessment Exercise(s) within the content

## 4.1 Introduction

In previous unit, we were able to discuss the major theories of entrepreneurship which includes the economic theory, psychological theory, sociological theory and innovation theory. In this unit, we shall look at other theories which have contributed immensely to entrepreneurship development.

## 4.2 Learning Outcomes

By the end of this unit, you will be able to:

- Describe Max Weber's theory of entrepreneurial growth
- Discuss Exposure theory of entrepreneurship
- Explain Ronald Burt's theory of entrepreneurship
- Discuss Opportunity-based entrepreneurship theory
- Discuss Resource based entrepreneurship theory
- Explain Risk bearing theory of Knight
- Elaborate on Hagen's Theory of Entrepreneurship

## 4.3 Max Weber's Theory of Entrepreneurial Growth

Max Weber theory emphasizes the impact of religion on entrepreneurial development. According to the theory, some religions have basic beliefs to earn and acquire money and some have less of it which he calls 'spirit of capitalism' and 'adventurous spirit'. The spirit of capitalism is generated when mental attitude in the society is favourable to capitalism. According to Max Weber, driving entrepreneurial energies are generated by the adoption of exogenously-supplied religious beliefs. These beliefs usually produce intensive effort in occupational pursuits, the systematic ordering of means to ends, and the accumulation of assets. His theory suggests the belief systems of Hinduism, Buddhism and Islam do not encourage entrepreneurship. His stand has been challenged by many sociologists. Max Weber's theory favoured the colonial rulers who wanted to encourage European entrepreneurship in India. However, it has been criticized as a

result of its invalid assumptions which include;

- (a) There is a single system of Hindu value,
- (b) The Indian community internalised those values and translated them to day-to-day behaviour,
- (c) The values remained immune to and insulated against external pressures and change.

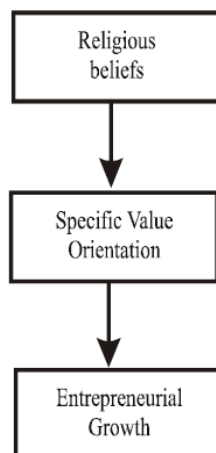
Many thinkers have accepted the Weber's analysis of linkage between religious belief and entrepreneurial growth but this view has not been universally accepted.

#### Self-Assessment Exercises 1

1. With the aid of a diagram, discuss the Max Weber theory of entrepreneurial growth.

#### 4.4 Exposure Theory of Entrepreneurship

A lot of studies have shown that it is the exposure to new ideas and opportunities towards creativity and innovation that leads to create a new venture which births the exposure theory of entrepreneurship. It was observed that exposure to new ideas and values were the common factor between Parsi and Hindu entrepreneurs, which led them to entrepreneurship. Education has played an important role in exposing the Indian entrepreneurs to Western ideas leading them to entrepreneurship. The exposure theory of entrepreneurship is illustrated in the diagram below;



#### **4.5 Ronald Burt's Theory of Entrepreneurship – Network and Entrepreneurship**

The network theory was propounded by a sociologist Ronald Burt. A network represents all the relationships and connections that one has with the others, no matter their nature or characteristics. According to Burt, the concept of network is central to the term of social capital and proposed that there are two possible interpretations of it.

- i. A network is important because it is the way which can lead to significant resources and opportunities
- ii. A network can be considered important for the very fact that it in itself is a resource, able to offer better access, timing or chances.

Entrepreneurial opportunities are found in a person's network if it is structured in a certain way. An entrepreneur can only act if is in a position of mediating between distinct members of its network. Burt called entrepreneurial opportunity as –a structural hole which will occur between two non-redundant contacts (this contact implies no connection exists at the moment and as a result a third person from the network called –tertius gaudens). A network rich in entrepreneurial opportunity surrounds a player motivated to be entrepreneurial while at the other extreme, a player innocent of entrepreneurial motive lives in a network devoid of entrepreneurial opportunity.

#### **4.6 Opportunity-Based Entrepreneurship Theory**

The opportunity-based theory was propounded by Peter Drucker and Howard Stevenson. Entrepreneurs do not cause change (as claimed by the Schumpeterian or Austrian school) but exploit the opportunities that change creates (either in technology, consumer preferences etc.). He further stated that the entrepreneur always searches for change, respond to it, and exploit it as an opportunity. According to Drucker, entrepreneurs have an eye more for possibilities created by change than the problems. Stevenson (1990) included resourcefulness into the opportunity-

based construct. This is based on research to determine the differences between entrepreneurial management and administrative management. He concludes that the hub of entrepreneurial management is the –pursuit of opportunity without regard to resources currently controlled.

#### **4.7 Resource- Based Entrepreneurship Theories**

The Resource-based theory of entrepreneurship argues that access to resources by founder/originator is an important predictor of opportunity-based entrepreneurship and new venture growth. The theory stresses the importance of financial, social and human resources to entrepreneurship. Thus, access to resources enhances the individual ‘s ability to detect and act upon discovered opportunities. Financial, social and human capital represents three classes of theories under the resource – based entrepreneurship theories.

##### **4.7.1 Financial Capital/Liquidity Theory**

This theory suggests that people with financial capital are more able to acquire resources to effectively exploit their entrepreneurial opportunities, and set up a firm. Setting-up of new firms is more common when people have access to financial capital. This theory argues that entrepreneurs have individual-specific resources that aid the recognition of new opportunities and the accumulation of new resources for the emerging firm. The demonstrated that most founders start new ventures with little or no capital, and that financial capital is not significantly related to the probability of being promising entrepreneurs.

##### **4.7.2 Social Capital or Social Network Theory**

Entrepreneurs are embedded in a larger social network structure that constitutes a significant proportion of their opportunity structure (Clausen, 2006). An individual may have the ability to recognize that a given entrepreneurial opportunity exist, but might lack the social connections to transform the opportunity into a business start-up (Shane & Eckhard, 2003). The theory further explains that stronger social ties to resource providers facilitate the acquisition of resources and

enhance the probability of opportunity exploitation. Reynolds (1991) mentioned social network in his four stages in the sociological theory.

#### 4.7.3 Human Capital Entrepreneurship Theory

The human capital entrepreneurship theory are two factors, education and experience (Becker, 1975). The knowledge gained from education and experience represents a resource that is heterogeneously distributed across individuals and in effect central to understanding differences in opportunity identification and exploitation.

#### Self-Assessment Exercises 2

1. Critically discuss the resource-based entrepreneurship theory

#### 4.8 Risk Bearing Theory of Knight

A major element of entrepreneurship is risk bearing. Prof. Knight and John Staurt Mill saw risk-bearing as an important function of entrepreneurs. Some of the essential features of this theory are as follows:

- 1. Risk creates Profit:** According to the risk-bearing theory, the entrepreneur earns profits because he undertakes risks.
- 2. More Risk More Gain:** The degree of risk varies in different industries. Entrepreneurs undertake different degrees of risk according to their ability and inclination. The risk theory proposes that the more risky the nature of business, the greater must be the profit earned by it.
- 3. Profit as Reward and Cost:** Profit is the reward of the entrepreneur for assuming risks. Hence, it is also treated as a part of the normal cost of production.
- 4. Entrepreneur's Income is Uncertain:** He identifies uncertainty with a situation where the probabilities of alterative outcomes cannot be determined either by a priori reasoning or by statistical inference.

## Self-Assessment Exercises 3

1. Examine and analyse the risk bearing theory of Knight

**4.9 Hagen's Theory of Entrepreneurship****Friedrich von Hayek's Theory of Entrepreneurship – Knowledge and Entrepreneurship**

Friedrich von Hayek, also a neo-Austrian economist, has made an important contribution to the research of entrepreneurship throughout its entrepreneurship theory based on the use of knowledge and more specifically of practical knowledge. According to von Hayek, the deficit of knowledge represents the fundamental premise for the existence of entrepreneurship. It is important to stress that by deficit of knowledge implies that a new type of knowledge is developed with the help of this process. von Hayek stated that to be an entrepreneur implies a –discovery process. According to Hagen, entrepreneurship is supplied disproportionately more by subordinated groups which are alienated from society and which thus attempt to assert themselves through enterprise. One important theory of entrepreneurial behaviour has been propounded by Hagen which is referred to as the withdrawal of status respect. Hagen has attributed the withdrawal of status respect of a group to genesis of entrepreneurship. Status withdrawal occurs when members of some social group perceive that their purposes and values in life are not respected by the groups in the society they respect, and whose esteem they value. Hagen postulates four types of events which can produce status withdrawal;

- i. Displacement of a traditional elite group from its previous status by another traditional supply physical force.
- ii. Denigration of valued symbols through some change in the attitude of the superior group.
- iii. Inconsistency of status symbols with a changing distribution of economic power.
- iv. Non-acceptance of expected status on migration to a new society.

Hagen further postulates that withdrawal of status respect would give to four possible reactions and create four different personality types;

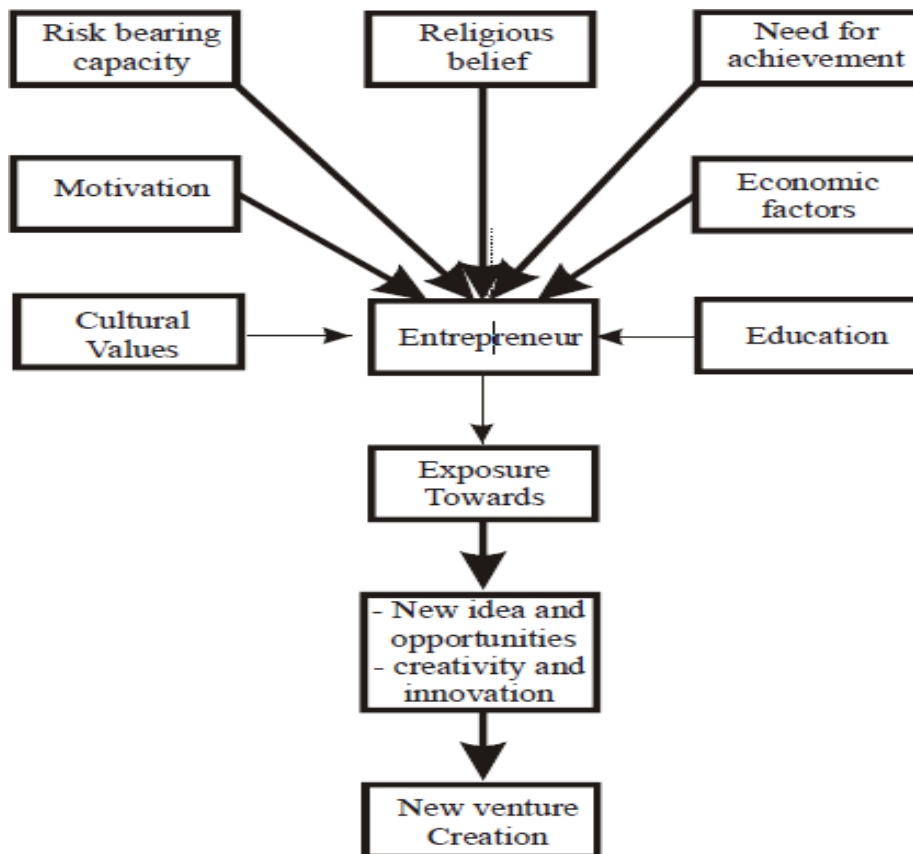
(a) **Retreatist:** Entrepreneur who continues to work in society but remains indifferent to his work or status.

(b) **Ritualist:** This refers to someone who works as per the norms in the society but without hope of improvement in the working conditions or his status.

(c) **Reformist:** One who is a rebellion and tries to bring in new ways of working and new society.

(d) **Innovator:** An entrepreneur who is creative and try to achieve his goals set by himself.

Hagen theory is further simplified in the diagram below;



Self-Assessment Exercises 3

1. What are the majors of the Hagen's theory of entrepreneurship



### 5.10 Summary

From this unit, we have been able to discuss;

- Max Weber's theory of entrepreneurial growth
- Exposure theory of entrepreneurship
- Ronald Burt's theory of entrepreneurship
- Opportunity-based entrepreneurship theory
- Resource based entrepreneurship theory
- Risk bearing theory of Knight
- Hagen's Theory of Entrepreneurship

The other theories of entrepreneurship have been able to look at other aspect of entrepreneurship development which the major theories of entrepreneurship did not look into. Some of these theories also came out as a result of the short-coming of the major theories to explain some certain phenomenon in the entrepreneurship. For example, the Hagen's theory of entrepreneurship combined the economic theory (economic factors), the sociological theory (religious belief) and the psychological theory (need for achievement, risk taking) to discuss entrepreneurship. This theory is more deeply rooted than discussing each theory separately.

### 5.11 References/Further Readings/Web Resources

Becker, G.S. (1993). Human capital, a theoretical and Empirical Analysis with Special Reference to Education. Chicago: The University of Chicago Press.

Byrnes, J. P., D. C. Miller, & W. D. Schafer. (1999). -Gender Differences in Risk Taking: A Meta-Analysis. *Psychological Bulletin*, 125(3), 367-383.

Berger, A., & Gregory, U. (2003). Small Business and Debt Financing, || in *Handbook of Entrepreneurship Research: An Interdisciplinary Survey and*

*Introduction*, edited by Zoltan Acs and David Audretsch. Boston: Kluwer Publishers.

Birley, S(1985).The Role of networks in the entrepreneurial process, *Journal of Business Venturing* 1: 107-118.

Brandenburg, F. (1962). A Contribution to the Theory of Entrepreneurship and Economic Development: The Case of Mexico,|| *Inter-American Economic Affairs* 16: 3-24.

Brockhaus, R. (1980). -Risk Taking Propensity of Entrepreneurs,|| *The Academy of Management Journal* 23: 509-520.

Davidson, P, & Wilkin, J (2001). -Levels of Analysis in Entrepreneurship Research: Current Research Practice and Suggestions for the Future,|| *Entrepreneurship Theory and Practice*: 81-99.

Leff, N. H (1979). -Entrepreneurship and Economic Development: The Problem Revisited,|| *Journal of Economic Literature* 17: 46-64.

Penrose, Edith (1995). *The Theory of the Growth of the Firm*. Oxford: Oxford University Press. Praag,

Mirijam V. & Ophem, H. (1995). Determinants of Willingness and Opportunity to Start as an Entrepreneur," *Kyklos*, 48:4, 513-40.

Rosenberg, N. (2003). -America's Entrepreneurial Universities.|| *In The Emergence of Entrepreneurship Policy*, David Hart, ed. Cambridge: Harvard University Press.

Alvarez, S., & Busenitz, L. (2001). The entrepreneurship of resource-based theory, *Journal of Management*, 27,755-775.

Anderson, A., & Miller, C. (2003), -Class matters: human and social capital in the entrepreneurial process, *The Journal of Socio-Economics*, 32, 17-36

## **5.12 POSSIBLE ANSWERS TO SELF- ASSESSMENT EXERCISES**

### **ANSWERS TO SAEs 1**

#### **Max Weber's Theory of Entrepreneurial Growth**

Max Weber theory emphasizes the impact of religion on entrepreneurial development. According to the theory, some religions have basic beliefs to earn and acquire money and some have less of it which he calls 'spirit of capitalism' and 'adventurous spirit'. The spirit of capitalism is generated when mental attitude in the society is favourable to capitalism. According to Max Weber, driving entrepreneurial energies are generated by the adoption of exogenously-supplied religious beliefs. These beliefs usually produce intensive effort in occupational pursuits, the systematic ordering of means to ends, and the accumulation of assets. His theory suggests the belief systems of Hinduism, Buddhism and Islam do not encourage entrepreneurship. His stand has been challenged by many sociologists. Max Weber's theory favoured the colonial rulers who wanted to encourage European entrepreneurship in India.

## **ANSWERS TO SAEs 2**

The Resource-based theory of entrepreneurship argues that access to resources by founder/originator is an important predictor of opportunity-based entrepreneurship and new venture growth. The theory stresses the importance of financial, social and human resources to entrepreneurship. Thus, access to resources enhances the individual 's ability to detect and act upon discovered opportunities. Financial, social and human capital represents three classes of theories under the resource – based entrepreneurship theories.

### **1. Financial Capital/Liquidity Theory**

This theory suggests that people with financial capital are more able to acquire resources to effectively exploit their entrepreneurial opportunities, and set up a firm. Setting-up of new firms is more common when people have access to financial capital. This theory argues that entrepreneurs have individual-specific resources that aid the recognition of new opportunities and the accumulation of new resources for the emerging firm. The demonstrated that most founders start new ventures with little or no capital, and that financial capital is not significantly related to the probability of being promising entrepreneurs.

### **2. Social Capital or Social Network Theory**

Entrepreneurs are embedded in a larger social network structure that constitutes a significant proportion of their opportunity structure (Clausen, 2006). An individual may have the ability to recognize that a given entrepreneurial opportunity exist, but might lack the social connections to transform the opportunity into a business start-up (Shane & Eckhard, 2003). The theory further explains that stronger social ties to resource providers facilitate the acquisition of resources and enhance the probability of opportunity exploitation. Reynolds (1991) mentioned social network in his four stages in the sociological theory.

### **3. Human Capital Entrepreneurship Theory**

The human capital entrepreneurship theory are two factors, education and experience (Becker,

975). The knowledge gained from education and experience represents a resource that is heterogeneously distributed across individuals and in effect central to understanding differences in opportunity identification and exploitation.

### **ANSWERS TO SAEs 3**

#### **Friedrich von Hayek's Theory of Entrepreneurship – Knowledge and Entrepreneurship**

Friedrich von Hayek, also a neo-Austrian economist, has made an important contribution to the research of entrepreneurship throughout its entrepreneurship theory based on the use of knowledge and more specifically of practical knowledge. According to von Hayek, the deficit of knowledge represents the fundamental premise for the existence of entrepreneurship. It is important to stress that by deficit of knowledge implies that a new type of knowledge is developed with the help of this process. von Hayek stated that to be an entrepreneur implies a –discovery process. According to Hagen, entrepreneurship is supplied disproportionately more by subordinated groups which are alienated from society and which thus attempt to assert themselves through enterprise. One important theory of entrepreneurial behaviour has been propounded by Hagen which is referred to as the withdrawal of status respect. Hagen has attributed the withdrawal of status respect of a group to genesis of entrepreneurship. Status withdrawal occurs when members of some social group perceive that their purposes and values in life are not respected by the groups in the society they respect, and whose esteem they value. Hagen postulates four types of events which can produce status withdrawal;

- i. Displacement of a traditional elite group from its previous status by another traditional supply physical force.
- ii. Denigration of valued symbols through some change in the attitude of the superior group.
- iii. Inconsistency of status symbols with a changing distribution of economic power.
- iv. Non-acceptance of expected status on migration to a new society.

Hagen further postulates that withdrawal of status respect would give to four possible reactions and create four different personality types;

(e) **Retreatist:** Entrepreneur who continues to work in society but remains indifferent to his work or status.

(f) **Ritualist:** This refers to someone who works as per the norms in the society but without hope of improvement in the working conditions or his status.

(g) **Reformist:** One who is a rebellion and tries to bring in new ways of working and new society.

**Innovator:** An entrepreneur who is creative and try to achieve his goals set by himself.

**MODULE 3****UNIT 1 CONTRIBUTION OF THE ECONOMIC SCHOOL TO ENTREPRENEUR DEVELOPMENT**

## Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 Early/Classical contributors
  - 1.3.1 Richard Cantillon
  - 1.3.2 Jean Baptist Say (1845)
  - 1.3.3 Carl Menger
  - 1.3.4 John Stuart Mill
  - 1.3.5 Frederic Barnard Howley 1907
  - 1.3.5 Alfred Marshall 1881
  - 1.3.7 Nicolas Baudeau 1771
  - 1.3.8 Jacques Turgot 1766
- 1.4. Austrian contributors
  - 1.4.1 Frank Knight(1971)
  - 1.4.2. Friedrich Hayek (1937)
  - 1.4.3. Mark Casson (1995)
- 1.5 Radical contributor
- 1.6 Summary and key terms of contributors
- 1.7 Summary
- 1.8 References/Further Readings/Web Resources
- 1.9 Possible Answers to Self-Assessment Exercise(s) within the content

## 1.1. Introduction

The economic schools of entrepreneurship as discussed in previous chapters were the earliest contributors to the field of entrepreneurship. According to their school of thought, an entrepreneur is a person who brings the factors of production (Machine, labour, capital) together to produce economic value (goods and services); and also, one who originates changes, innovations and new ideas. This unit will introduce the various contributors to the economic school of thought and the key terms of entrepreneurship.

## 1.2 Learning Outcomes

By the end of this unit, you will be able to:

- Discuss contributors to the economic theory of entrepreneurship
- Analyse contributors to the classical school of thought
- Identify contributors to the neo-classical school of thought
- Explain contributors to the Austrian model school of thought
- Discuss other contributors to the economic theory of entrepreneurship

## 1.3 Ealy/Classical School of Thought

Entrepreneurship was a common topic in economic essay between the periods of the 18<sup>th</sup> century to the 19<sup>th</sup> century. Notable early French, British and Austrian economists wrote about entrepreneurs as the change agents 'of progressive economies. There are various theorists who contributed significantly to the economic schools of thought amongst them are;

- i. Richard Cantillion
- ii. Jean Baptist Say
- iii. John Stuart Mill
- iv. Carl Menger
- v. Frank Knight
- vi. Frederic Barnard Howley
- vii. Alfred Marshall



- viii. Nicolas Baudeau
- ix. Jacques Turgot

### **1.3.1. Richard Cantillon**

Richard Cantillon was a French economist of Irish descent and was the first economist to have used the term entrepreneurship. Cantillon is credited with giving the concept of entrepreneurship a central role in economics. Cantillon described an entrepreneur as a person who pays a certain price for a product to resale it at an uncertain price, thereby making decisions about obtaining and using resources while consequently assuming the risk of enterprise. Cantillon's work was published posthumously during 1755 in his book *Essai sur la nature du commerce en general*.

### **1.3.2. Jean Baptist Say (1845)**

Jean Baptist was a French economist who described an entrepreneur as one who possessed the arts and skills of creating new economic enterprises, a person who had exceptional insight into society's needs and was able to fulfill them. In his opinion, an entrepreneur influences the society by creating new enterprises and at the same time is influenced by society to recognize needs and fulfill them through efficient management of resources. Say was the first to distinguish between the function of entrepreneur and capitalist. He identified the role of uncertainty and realized that it is the uncertainty that makes the role of entrepreneur very difficult and tedious.

### **1.3.3. Carl Menger**

Carl Menger was an Austrian economist, made a revolutionary contribution in 1871 through his book *Principles of Economics* where the model of value – added transformation of resources was introduced. Menger expressed that economic change does not arise from circumstances but from an individual's awareness and understanding of those circumstances. The entrepreneur is thus the change agent who transforms resources into useful goods and services.

#### **1.3.4. John Stuart Mill**

He was a British economist who recognized entrepreneurship as central to economic theory in 1848. Mill emphasized on the necessity of entrepreneurship in private enterprise. The term entrepreneur became common as a description of business founders and the fourth factor of economic endeavor that was essential for ownership of a commercial enterprise.

#### **1.3.5. Federic Barnard Howley 1907**

Howley attempted to integrate entrepreneur in the classic theory. The entrepreneur has the key function of the production process and decides what to do in using the means of production. However, at the same time, the entrepreneur operates in uncertainty and assumes the responsibility for production. Howley conceptualized the enterpriser as the motivator and uncertainty bearer will decide what should be produced, how much of it and by what method in order to attain his/her own ends.

#### **1.3.6. Alfred Marshall 1881**

Alfred Marshall, devoted attention to the entrepreneur. Marshall introduced the innovating functions of the entrepreneur by emphasizing that the entrepreneur continuously seeks opportunities to minimize costs.

#### **1.3.7. Nicolas Baudeau 1771**

Baudeau was the first to suggest the function of the entrepreneur as an innovator which brought about the discourse of invention and innovation. He also emphasized the ability to process knowledge and information, which makes the entrepreneur a lively and active economic agent.

#### **1.3.8. Jacques Turgot 1766**

According to Turgot, the entrepreneur is the outcome of a capitalist investment decision. The owner of capital can either simply lend his money and just be a capitalist, or decide to buy land

for lease and, hence, become a landowner, or he decides to buy goods to run a business and thus become an entrepreneur automatically. Turgot's capitalist was a capitalist-entrepreneur. He oriented workers not only on advanced savings and other factors of production, but also bore the risks of uncertainty of the market.

#### Self-Assessment Exercises 1

1. What are the major concerns of the theorist of the economic school of thought?
2. Critically examine the highlight of the theory of the classical school and its implication to the economic school of thought.

### 1.4. Austrian School of Thought

#### 1.4.1 Frank Knight (1971)

This is also known as Knightian entrepreneurship “. The contribution of Knight was distinguishing between uncertainty and risk and relating them to profit and entrepreneurship. Risk can be covered with some kind of insurance. But uncertainty is everywhere aspect of business decisions because production takes some time. Decisions regarding inputs should be taken now in order to create output in future.

He identified two types of risk: insurable and non-insurable. Insurable risk can be calculated statistically and precautionary measures can be taken, while non-insurable risk cannot be calculated and therefore no precautionary measures can be taken. Entrepreneur in such an uncertain situation has to play the role of a special functionary and the success or failure dependson the foresight and judgment of the entrepreneur.

### **1.4.2. Friedrich Hayek (1937)**

Hayek was the disciple of Mises, and he following Mises, developed the price theory. Hayek focused on information and knowledge rather than the issue of entrepreneurial decision making. He tried to understand how individuals successfully coordinate their actions, involved in complex expanding division of labour with only local and idiosyncratic knowledge. Key element of his thought on learning process was the problem of division of knowledge, i.e., different economic agents knew different things.

### **1.4.3. Mark Casson (1995)**

Cason developed an economic theory of entrepreneur that fits alongside neo-classical constructs. He also developed the modern economic theory of entrepreneurship through the combination of the ideas of Joseph Schumpeter, Friedrich Hayek and Frank Knight. According to this theory, successful entrepreneurs demonstrate good judgment in making risky innovations, and are compensated through either profits or salaries depending on whether they act as owners or managers of their firms. He also emphasized the significance of emotional rewards and cost of accessing information, while remaining detached from the views of Schumpeter and Krizner

**1.6: Summary of Economic contribution to entrepreneurship development**

<b>Year</b>	<b>Author</b>	<b>School of Thought</b>	<b>Highlight of Theory</b>	<b>Key terms</b>
1755	Cantillon	Early and Classical	Entrepreneurs work on uncertain wages	Uncertain wages
1771	Baudeau	Early and Classical	Invention and innovation, process knowledge and information	Innovation, knowledge, information
1770	Turgot	Early and Classical	Entrepreneur is the outcome of a capitalist investment decision	Capitalist investment Decision
1803	Say	Early and Classical	Entrepreneur coordinates and combines the factors of production	Factors of production
1881	Marshall	Early and Classical	Entrepreneur continuously seeks opportunities to minimize costs	Minimize costs

1907	Howley	Early and Classical	Enterpriser is the motivator and uncertainty bearer	Motivator, uncertainty Bearer
1921	Knight	Austrian	Distinguishing between uncertainty and risk and relating them to profit and entrepreneurship	Uncertainty, risk, profit
1949	Mises	Austrian	Entrepreneur is the acting individual	Acting individual
1937	Hayek	Austrian	Focused on information and knowledge	Information, knowledge
1970	Schakle;	Austrian	Entrepreneurship and Decision-making	Decision making
1975	Schultz	Austrian	Entrepreneurship is the ability to deal with disequilibrium	Deal with disequilibrium
1997,	Krizner	Austrian	Entrepreneurial discovery in the phase of disequilibrium	Disequilibrium, Discovery
1968	Bumol	Mainstream	Distinguishes two prototypes of entrepreneurship: firm organiser and innovator	Firm organiser, innovator
1982	Casson	Mainstream	Successful entrepreneurs demonstrate good judgment in making risky innovations, and are rewarded through either profits or Salaries	Judgment, risky innovation, reward

1928	Schumpeter	Radical	Innovation, creative destruction, detached risk from entrepreneur	Innovation, detached risk
1993	Choi	Radical	Distinguishes decision making into perception/logical choice	Decision making, perception, logical choice
1996	Harper	Radical	Profit seeking activity aimed at solving illspecified problems, structurally uncertain and complex situations	Profit seeking, solving problems, uncertain, complex situations

Source: Cherukara & Manalel (2011)

### Self-Assessment Exercises 2

3. Define entrepreneurship from the contributors to the Austrian school.

### 1.7. Summary

The economic school of entrepreneurship dealt extensively with the entrepreneur as a merchant, adventurer or an employer which implies an undertaken of a project. The contributors to the economic school of entrepreneurship had divergent views on which an entrepreneur should be starting out with the early contributors, neo-classical and Austrian views. The early contributors viewed an entrepreneur as a person who pays a certain price for a product to resale it an uncertain price according Cantillion while Say viewed an entrepreneur as one who possesses the art and skills of creating new economic enterprise. The Austrian and main stream also had a different view. Knight distinguishes between the uncertainty and risk taking relating them to

profit and entrepreneurship. It is important to note that these contributors saw an entrepreneur from the economic perspective which was based on the principles of economics.

The idea of looking at the contributors to entrepreneurship from the economic school of thought in this use is to enhance a proper understanding of how various theorist viewed entrepreneurship or an entrepreneur. This contribution has helped immensely towards the development of entrepreneurship as this was the first school of thought that coined the word entrepreneurship.

From this unit, the student has been to know;

- Contributors to the economic theory of entrepreneurship
- Contributors to the classical theory school of thought
- Contributors to the neo-classical school of thought
- Contributors to the Austrian model school of thought
- Other contributors to the economic theory of entrepreneurship

### 1.8. References

Cherukara, J.M & Manale,.J.l.(2011).Evolution of Entrepreneurship theories through different schools of thought. The Ninth Biennial Conference on Entrepreneurship at EDI, Ahmedabad

Carroll, G.R. & O.M. Khessina. (2005). The Ecology Of Entrepreneurship, Handbook of Entrepreneurship Research: Disciplinary Perspectives, Chapter 8: 167-200, Springer.  
[http://forum.johnson.cornell.edu/faculty/khessina/Chapter12\\_Handbook%20Of%20Entrepreneurship.pdf](http://forum.johnson.cornell.edu/faculty/khessina/Chapter12_Handbook%20Of%20Entrepreneurship.pdf)

Carton R. B., Hofer C. W., & Meeks M. D., The Entrepreneur and



Entrepreneurship: Operational Definitions of Their Role In Society,

<http://www.sbaer.uca.edu/research/icsb/1998/32.pdf>

Foss N. J. & Klein P. G. (2004), Entrepreneurship and the Economic Theory of the Firm: Any Gains from Trade? *CORI Working Paper No. 2004-09*

<http://openarchive.cbs.dk/bitstream/handle/10398/6429/04->

[12.pdf?sequence=1](http://openarchive.cbs.dk/bitstream/handle/10398/6429/04-12.pdf?sequence=1)

Grebel T., Pyka A., & Hanusch H. (2001). An Evolutionary Approach to the Theory of Entrepreneurship, No 206, Discussion Paper Series from

Universitaet Augsburg, Institute for Economics, <http://www.wiwi.uni->

[augsburg.de/vwl/institut/paper/206.pdf](http://www.wiwi.uni-augsburg.de/vwl/institut/paper/206.pdf)

Hebert, R.F. & Link, A.N. (1982). *The Entrepreneur: Mainstream Views and Radical Critiques*, 2nd edn. New York: Praeger.

Hills G. E. & LaForge R. W. (1992) Research at the Marketing Interface to advance Entrepreneurship Theory, *Entrepreneurship Theory & Practice* Spring, 1992 pp. 33-59

Kalantaridis, C. (2004). *Understanding the Entrepreneur: an institutionalist perspective*. Ashgate Publishing Ltd., England

Karayiannis A. D. (2002), *A Synthesized Theory of Entrepreneurship*

<http://www.econ.uoa.gr/UA/files/1788245897..pdf>

## **1.9 POSSIBLE ANSWERS TO SELF- ASSESSMENT EXERCISES**

### **ANSWERS TO SAEs 1**

Jean Baptist was a French economist who described an entrepreneur as one who possessed the arts and skills of creating new economic enterprises, a person who had exceptional insight into society's needs and was able to fulfill them. In his opinion, an entrepreneur influences the society by creating new enterprises and at the same time is influenced by society to recognize needs and fulfill them through efficient management of resources. Say was the first to distinguish between the function of entrepreneur and capitalist. He identified the role of uncertainty and realized that it is the uncertainty that makes the role of entrepreneur very difficult and tedious.

### **Federic Barnard Howley 1907**

Howley attempted to integrate entrepreneur in the classic theory. The entrepreneur has the key function of the production process and decides what to do in using the means of production. However, at the same time, the entrepreneur operates in uncertainty and assumes the responsibility for production. Howley conceptualized the enterpriser as the motivator and uncertainty bearer will decide what should be produced, how much of it and by what method in order to attain his/her own ends.

### **ANSWERS TO SAEs 2**

### **Frank Knight (1971)**

This is also known as Knightian entrepreneurship “. The contribution of Knight was distinguishing between uncertainty and risk and relating them to profit and entrepreneurship. Risk can be covered with some kind of insurance. But uncertainty is everywhere aspect of business decisions because production takes some time. Decisions regarding inputs should be taken now in order to create output in future.

He identified two types of risk: insurable and non-insurable. Insurable risk can be calculated

statistically and precautionary measures can be taken, while non-insurable risk cannot be calculated and therefore no precautionary measures can be taken. Entrepreneur in such an uncertain situation has to play the role of a special functionary and the success or failure dependson the foresight and judgment of the entrepreneur.

## **Unit 2: CONTRIBUTION OF THE PSYCHOLOGICAL SCHOOL TO ENTREPERNEURSHIP DEVELOPMENT**

### Unit Structure

- 2.1 Introduction
- 2.2 Learning Outcomes
- 2.3 Need for Achievement Theory
  - 2.3.1 David McClelland (1961)
  - 2.3.2 Hagen, Everret. E. (1962)
- 2.4 Social Learning Theory
  - 2.4.1 Rotter Julian .B. (1954)
- 2.5 Psychodynamic Model
  - 2.5.1 Kets de Vries, 1977
- 2,6 Summary and Key Terms of Contributors
- 2.7 Summary
- 2.8 References/Further Readings/Web Resources
- 2.9 Possible Answers to Self-Assessment Exercise(s) within the content

### **2.1 Introduction**

The psychological school is concerned with personality traits, psychodynamic model and the need for achievement. The psychological school of entrepreneurship has also witnessed a lot of contribution from various theorists. This theorist has contributed greatly to the development of entrepreneurship.

### **1.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Discuss contributors to the need for achievement theory
- Analyse contributors to social learning theory
- Identify contributors to the psychodynamic model
- Explain summary and key terms of contributors to psychological theory

## **2.3. The Need for Achievement (n-Ach) Theory**

### **2.3.1 David McClelland (1961)**

David McClelland is a popular contributor to the theory of entrepreneurship. McClelland's work was influenced by Weberian protestant ethics in which an intermediating psychological dimension is introduced. McClelland stressed the importance of Middle childhood as the formative period of entrepreneurial attitudes. In his own contribution, he argued that entrepreneurial behavior in business is motivated by the individual need for achievement. He further explained that a society with many people who have high need for achievement will likely have many entrepreneurs, while a contented or lazy society will not produce or even cherish entrepreneurship. Entrepreneurial pursuits represent the desired moderate risk situations, for individuals with high need for achievement, coming from lower/lower middle classes. Parents imposing high standards of excellence in early childhood, allowing him to attain them without interference, and real emotional pleasure in his attainment short of overprotection and indulgence, are the environment which helps to develop entrepreneurial mindset. This develops in certain individuals, a need for achievement: which indicates little interest in routine as well as high risk tasks; desire for tasks of moderate risks, where skill counts, desire for responsibility, and concrete measure of task performance.

### **2.3.2 Hagen, Everett. E. (1962)**

Hagen defined an entrepreneur as an individual, interested in solving practical and technical problem, and is driven by a duty to achieve. He divided his personality dichotomy into two; Creative and Non-creative dichotomy. Entrepreneurs occupy the creative end of his personality dichotomy. The other end of the dichotomy is authoritarian, noncreative personality. Creative personality is the result of historical process that may go to several generations back. Non-innovative personalities are as a result of up-bringing in traditional authoritarian families.

He further explains that the phenomenon that entrepreneurs frequently belong to ethnic or

religious minority groups. There are concerns that whether authoritative-creative dichotomy and association between authoritarian personality and non-innovative behaviour applies in all contexts. His model shows that an entrepreneur's creativity is the main ingredient and driving force behind social transformation (change) and economic growth.

### Self-Assessment Exercises 1

1. Identify the contributors to the need for achievement theory and their contribution

## 2.4. Social Learning Theory

### 2.4.1. Rotter Julian .B. (1954)

Rotter developed the social learning theory which suits the study of Entrepreneurial personality which analyses the interaction of individual with his/her environment. The major idea in Julian Rotter's social learning theory is that personality represents an interaction of the individual with his or her environment. One cannot speak of a personality, internal to the individual that is independent of the environment. He describes personality as a relatively stable set of potentials for responding to situations in a particular way. The social learning theory blends generality and specificity to enable psychologists to measure variables and to make a large number of accurate predictions from these variables. Locus of control which is part of the psychological theory of entrepreneurship originated from Rotter Julian in 1954. Locus of control considers the tendency of people to believe that control resides internally within them, or externally, with others or the situation. It was divided into two;

Internal locus of control: it is the degree to which persons expect that a reinforcement or an outcome of their behavior is contingent on their own behavior or personal characteristics

External locus of control: the degree to which persons expect that the reinforcement or outcome is a function of chance, luck, or fate, is under the control of powerful others, or is simply

unpredictable. Rotter connects the locus of control to entrepreneurial achievement and also connects the attitude to incidental learning.

## **2.5. Psychodynamic Model**

### **2.5.1 Kets de Vries (1977)**

Kets de Vries sees entrepreneur as tormented, scared by early childhood experiences, a loner, in isolation from his/her context, misfit displaced in own environment, a reject, a marginal man.

The entrepreneur translates his anger, anxiety, and rebelliousness into innovative activity. He conceptualizes the entrepreneur as highly multifaceted with no similarity to the 'economic' man.

In his work *The Entrepreneurial Personality* (1977), he takes the view that entrepreneurial behaviour is the result of experiences in early youth, when characterized by an unhappy family background with various kinds of psycho-social problems. The resultant effect is that the individual acquires a deviant personality, is unable to function in a structured social environment, and has difficulty accepting authority and working together with others. He also studied into the psyche of the entrepreneur and in his psychodynamic model conceptualize the entrepreneurial personality and gave a convincing explanation how it was formed. He recognized that there is no single entrepreneurial type and tried to understand the deviant Entrepreneur, close to Shumpeterian admiration.

#### Self-Assessment Exercises 2

1. What was the contribution of Kets de Vries in the psychological theory.

**2.6. Summary of the Contributors to the Psychological Theory of Entrepreneurship**

Year	Author	School of thought	Highlight of Theory	Key terms
1961	McClelland		Entrepreneurial pursuits represent the desired moderate risk situations, for individuals with high need for achievement	Moderate risk solutions High need for Achievements
1962	Hagen		Entrepreneur is an individual, interested in solving practical and technical problem, and is driven by a duty to achieve	Solving problems driven by duty to Achieve
1966	Rotter	Locus of Control	Those with internal locus of control will give heightened alertness which is essential for incidental learning (recognition of opportunities) with spontaneous learning resulting into	Internal/ external locus of control, incidental learning



			entrepreneurial behavior	
1977	Kets de Vries	Psychodynamic Model	Study into the psyche of the entrepreneur and conceptualize the entrepreneurial personality and a convincing explanation how it was formed	Study Psyche of Entrepreneurial Personality
1967	Glade	Situational Approaches	A shift of the study from the entrepreneur to behaviour of the entrepreneur	Behaviour of Entrepreneur
1981	Greenfield and Strikon	Situational Approaches	A new theory based on ‘learning by doing’, introduce the term, ‘symbols’	Learning by doing, symbols
1985	Gardner	Situational Approaches	Entrepreneurs are classified into patterns whereby they are grouped sharing similar characteristics	Classified into Patterns Grouped sharing similar characteristics
2000	Chell	Social Constructionism	Entrepreneurs are distinguished from non-	motivation for wealth creation,

			entrepreneurs by their motivation for wealth creation, capital accumulation, the ability to recognize opportunities and their judgement	recognize opportunities, judgement
--	--	--	---	------------------------------------

Source: Cherukara & Manalel (2011)

Self-Assessment Exercises 3

1. Identify four other contributors to the development of psychological theory and their major contributions.

**2.7. Summary**

The contributors to the psychological school of entrepreneurship have been identified and discussed in this unit. The contributors to the need for achievement theory were David McClelland and Hagen, Everest. Rotter Julian was also a major contributor to the social learning theory while Kets de Vries contributed greatly to the psychodynamic model. Other contributors to the psychological theory were also identified along with their key terms in the summary table.

- Contributors to the need for achievement theory
- Contributors to social learning theory
- Contributors to the psychodynamic model
- Summary and key terms of contributors to the psychological theory

## 2.8 References/Further Readings/Web Resources

Bygrave W. D. & Hofer C. W. (1991). Theorizing about Entrepreneurship, *Entrepreneurship Theory and Practice*, winter 1991, pp. 11-22

Carroll, G.R. & O.M. Khessina. (2005). The Ecology Of Entrepreneurship, *Handbook of Entrepreneurship Research: Disciplinary Perspectives*, Chapter8:167-200, Springer.

[http://forum.johnson.cornell.edu/faculty/khessina/Chapter12\\_Handbook%20Of%20Entrepreneurship.pdf](http://forum.johnson.cornell.edu/faculty/khessina/Chapter12_Handbook%20Of%20Entrepreneurship.pdf)

Carton R. B., Hofer C. W., Meeks M. D., The Entrepreneur and Entrepreneurship: Operational Definitions of Their Role In Society, <http://www.sbaer.uca.edu/research/icsb/1998/32.pdf>

Cherukara, J.M & Manale,,J.I.(2011).Evolution of Entrepreneurship theories through different schools of thought. The Ninth Biennial Conference on Entrepreneurship at EDI, Ahmedabad

Drucker P. F (1964). *Managing for Results*, Harper & Row, New York, 1964,p.5

Drucker, P. F (1985). *Innovation and Entrepreneurship*. New York: Harper & Row, p.143.

Mc Clelland, D.(1961). *The Achieving Society*, New Jersey: Van Nostrand Company Inc. Princeton.

Shapiro A. & Sokol, L. (1975). *The Social Dimensions of Entrepreneurship*, U.K: Kenton and Vesper, pp 72–88.

Virtanen, M. (1997). The Role of Different Theories in Explaining Entrepreneurship <http://usasbe.org/knowledge/proceedings/proceedingsDocs/USASBE1997proceedingsP109Virtanen.PDF>

## **1.12 POSSIBLE ANSWERS TO SELF- ASSESSMENT EXERCISES**

### **ANSWERS TO SAEs 1**

#### **The Need for Achievement (n-Ach) Theory**

##### **2.3.1 David McClelland (1961)**

David McClelland is a popular contributor to the theory of entrepreneurship. McClelland's work was influenced by Weberian protestant ethics in which an intermediating psychological dimension is introduced. McClelland stressed the importance of Middle childhood as the formative period of entrepreneurial attitudes. In his own contribution, he argued that entrepreneurial behavior in business is motivated by the individual need for achievement. He further explained that a society with many people who have high need for achievement will likely have many entrepreneurs, while a contented or lazy society will not produce or even cherish entrepreneurship. Entrepreneurial pursuits represent the desired moderate risk situations, for individuals with high need for achievement, coming from lower/lower middle classes. Parents imposing high standards of excellence in early childhood, allowing him to attain them without interference, and real emotional pleasure in his attainment short of overprotection and indulgence, are the environment which helps to develop entrepreneurial mindset. This develops in certain individuals, a need for achievement: which indicates little interest in routine as well as high risk tasks; desire for tasks of moderate risks, where skill counts, desire for responsibility,

and concrete measure of task performance.

### 2.3.2 Hagen, Everett. E. (1962)

Hagen defined an entrepreneur as an individual, interested in solving practical and technical problem, and is driven by a duty to achieve. He divided his personality dichotomy into two; Creative and Non-creative dichotomy. Entrepreneurs occupy the creative end of his personality dichotomy. The other end of the dichotomy is authoritarian, noncreative personality. Creative personality is the result of historical process that may go to several generations back. Non-innovative personalities are as a result of up-bringing in traditional authoritarian families.

He further explains that the phenomenon that entrepreneurs frequently belong to ethnic or religious minority groups. There are concerns that whether authoritative-creative dichotomy and association between authoritarian personality and non-innovative behaviour applies in all contexts. His model shows that an entrepreneur's creativity is the main ingredient and driving force behind social transformation (change) and economic growth.

## ANSWERS TO SAEs 2

### Kets de Vries (1977)

Kets de Vries sees entrepreneur as tormented, scared by early childhood experiences, a loner, in isolation from his/her context, misfit displaced in own environment, a reject, a marginal man.

The entrepreneur translates his anger, anxiety, and rebelliousness into innovative activity. He conceptualizes the entrepreneur as highly multifaceted with no similarity to the 'economic' man.

In his work *The Entrepreneurial Personality* (1977), he takes the view that entrepreneurial behaviour is the result of experiences in early youth, when characterized by an unhappy family background with various kinds of psycho-social problems. The resultant effect is that the individual acquires a deviant personality, is unable to function in a structured social

environment, and has difficulty accepting authority and working together with others. He also studied into the psyche of the entrepreneur and in his psychodynamic model conceptualize the entrepreneurial personality and gave a convincing explanation how it was formed. He recognized that there is no single entrepreneurial type and tried to understand the deviant Entrepreneur, close to Shumpeterian admiration.

### **ANSWERS TO SAEs 3**

**Three other contributors to the development of psychological theory and their major contributions.**

- The Need for Achievement (n-Ach) Theory

David McClelland (1961)

David McClelland is a popular contributor to the theory of entrepreneurship. McClelland's work was influenced by Weberian protestant ethics in which an intermediating psychological dimension is introduced. McClelland stressed the importance of Middle childhood as the formative period of entrepreneurial attitudes. In his own contribution, he argued that entrepreneurial behavior in business is motivated by the individual need for achievement. He further explained that a society with many people who have high need for achievement will likely have many entrepreneurs, while a contented or lazy society will not produce or even cherish entrepreneurship.

- Social Learning Theory

Hagen, Everett. E. (1962)

Hagen defined an entrepreneur as an individual, interested in solving practical and technical problem, and is driven by a duty to achieve. He divided his personality dichotomy into two; Creative and Non-creative dichotomy. Entrepreneurs occupy the creative end of his personality dichotomy. The other end of the dichotomy is authoritarian, noncreative personality. Creative personality is the result of historical process that may go to several generations back. Non-innovative personalities are as a result of up-bringing in traditional authoritarian families.

- Psychodynamic Model

Kets de Vries (1977)

Kets de Vries sees entrepreneur as tormented, scared by early childhood experiences, a loner, in isolation from his/her context, misfit displaced in own environment, a reject, a marginal man. The entrepreneur translates his anger, anxiety, and rebelliousness into innovative activity. He conceptualizes the entrepreneur as highly multifaceted with no similarity to the 'economic' man. In his work *The Entrepreneurial Personality* (1977), he takes the view that entrepreneurial behaviour is the result of experiences in early youth, when characterized by an unhappy family background with various kinds of psycho-social problems. The resultant effect is that the individual acquires a deviant personality, is unable to function in a structured social environment, and has difficulty accepting authority and working together with others

## **Unit 3: CONTRIBUTORS TO THE SOCIOLOGICAL AND INNOVATION SCHOOL TO ENTREPERNEURSHIP DEVELOPMENT**

### Unit Structure

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 Contribution of Max Weber
  
- 3.4 Contribution of Leland Jenks
  
- 3.5 Contribution of Thomas Cochran
  
- 3.6 Contribution of Social marginality
  
- 3.7 Contribution from the innovation theory (Joseph Schumpeter)
  
- 3.8 Summary and Key Terms of Contributors
- 3.9 Summary
- 3.10 References/Further Readings/Web Resources
- 3.11 Possible Answers to Self-Assessment Exercise(s) within the content

### **3.1. Introduction**

This unit will discuss contribution of various theorists to the development of the entrepreneurship from the sociological school of entrepreneurship. The contributors were able to discuss the sociology of an entrepreneur. The contributors to this school of entrepreneurship have been identified and discussed in the main content. The contributor from the innovation theory was also identified and discussed appropriately.

### **3.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Discuss contribution of Max Weber
- Analyse contribution of Leland Jenks
- Identify contribution of Thomas Cochran
- Explain contribution of Social Marginality
- Discuss contribution from the innovation theory (Joseph Schumpeter)
- Identify Summary and Key Terms of Contributors



### 3.3. Contribution of Max Weber

Max Webber was a famous sociologist and political economist of German origin. His writings in the early 20th century have tremendously influenced sociological, religious and political thinking today. In his book 'the theory of social and economic organizations' edited by Parsons (1964) Webber asserts that 'entrepreneurship is a function of religious beliefs and the impact of religion shapes the entrepreneurial culture. He argues that 'entrepreneurial energies are exogenous i.e. they are come from external factors, and are fueled by religious aspects. Webber argues that the rise of capitalism in Northern Europe was due to the protestant theology which inspired many followers to engage in work, open up enterprises, accumulate wealth and make investments.

Weber stresses the goodness of work—the individuals work is regarded as calling which is the literal concept of vocation. Financial rewards are considered as God's blessings. Protestant values called for self-restraint, and the accumulation of productive assets. The transformation of drive provided by protestant ethics to entrepreneurial ventures on account of experimental science, rational authority streaming from Roman law and rational govt. administrations.

Max Weber opined that entrepreneurship development arises only within a social group which holds similar value with protestant ethic. He argued that the system of value facilitates entrepreneurship in the following ways;

- i. A system of values can provide a coherent moral argument for entrepreneurial behavior
- ii. Moral beliefs act autonomously on men's mind, forming character, which conceives entrepreneurship as a duty.
- iii. Value which is embedded in an institution defines groups with social cohesion and brings economic advantage.

### Self-Assessment Exercises 1

1. Discuss the contribution of Max Weber and his impact to development of the sociological

#### **3.4 Contribution of Leland Jenks (1949)**

Jenks proposed and developed the relevance of entrepreneurial roles in society. He defined the roles as probable action patterns of social contexts. These roles are learned by individuals during childhood experiences and in the context of other adult roles. No two roles can be identical as no two personalities are the same. Jenks identified four roles:

- i. the agent's perception of the expectation that other individuals have of him/her during the process of social interaction.
- ii. learning by reward/punishment for appropriate /inappropriate responses respectively.
- iii. the adaptation of role models.
- iv. recognition of socially available roles into new combinations which offers scope for diversity and change both between personal roles and personal and social roles.

#### **3.5. Contributions of Thomas Cochran**

Cochran has propounded a sociological theory of entrepreneurship. Starting with the premise that fundamental problems of economic development are non-economic, he emphasizes cultural values, role expectations, and social sanctions as the key elements that determines the supply of entrepreneur. According to him, an entrepreneur is neither a super-normal individual nor a deviant person but represents a society's model personality. The executive, therefore, plays a social role partly shaped by the model type of personality that comes from the social conditioning of his generation. While the unusual characters will always depart from the norms, in general, invention and innovation will tend to be along lines congenial to the type of

conditioning. It is obvious that the primarily cultural factors operating on the personality of the executive and the defining of his role by those involved must accommodate to some degree to the necessities of the operations to be carried out " .

### **3.6. Social Marginality**

The influence of social marginality upon the emergence of entrepreneurship is viewed as very strong.

#### **Sombart 1911**

Sombart (1911) states that creativity and the ability to break social values associated with entrepreneurship is more frequent among marginal and minority groups. Non-acceptance in societies within which they live, enables individuals, to avoid traditional values, and norms, that regulate economic behavior. Hoselitz (1963) and Young (1971) provided theoretical base which were proven empirically in 1980s and 90s. (Kalantaridis, 2004)

#### **Bert F. Hoselitz 1963**

Hoselitz was influenced by the work of Sombart by the observation that minority groups like Jews, and Greeks, in Europe, Lebanese in West Asia, Chinese in Southeast Asia, and Indians in S. Africa, become successful entrepreneurs because of their ambiguous position.

**F. V. Young 1971:** Young referred to group solidarity, reactive when (1) group experience low status recognition, (2) denial of access to important social networks and (3) and it possesses a greater range of institutional resources than other groups in society at the same system level.

### **3.7. Contribution from the Innovation Theory (Joseph Schumpeter)**

Schumpeter (1991) defines entrepreneur as someone who establishes a new business to produce a new product or to make an old product in a new way. In his work, the entrepreneur takes the center stage of socioeconomic development. He takes the role of socioeconomic leader since he has the ability to decide, to direct, to push matters through. The Schumpeterian entrepreneur differs from imitators in applying new methods of production on the market, in

opening up new markets. This creative ability differences gives entrepreneur a chance of accumulation of a surplus but this eroded as imitators appear in the market using same methods. Thus, the temporary monopoly profits made by the entrepreneur shows the dynamic of the capitalist system and also show that each cycle of innovations by entrepreneurs is the main cause of business cycles. profit. The profit for Schumpeter is the result of innovation and also the inducement to innovation and only the capitalist system allows the successful entrepreneur to take profit. With his analysis unlike Marshall, Schumpeter is able to explain how the system works and where the profits come from.

There are some criticisms against Schumpeter's creative destruction theory:

- Schumpeter puts all the responsibility of innovations on the shoulders of 'great man'. However, if innovations and the act of pushing them through commercially are carried out not by individuals, but by a generation, then the contrast between the leader and imitators irrelevant.
- Self-Assessment Exercises 2

- 1. Discuss the contribution of Joseph Schumpeter and his impact to development of the innovation theory

**3.8. Contributors to the Sociology Theory of Entrepreneurship**

Year	Author	School of thought	Highlight of Theory	Key terms
1904-1906	Weber		Entrepreneurship determined by religious concepts	Religious concepts
1949	Jenks	Entrepreneurial History	Development of entrepreneurship through Social roles	Social roles

1963	Hoselitz	Social Marginality	Social and ethnic minorities show high level of entrepreneurship	Social, ethnic Minorities
1971	Young	Social Marginality	Resourceful, group solidarity, reactive due to low status recognition or denial to access	Group solidarity, low status recognition
1997	Hannah & Freeman	Evolutionary Approaches	Brought out evolutionary approach known as Population Ecology focused on presence, characteristics, and	Evolutionary approach, Population ecology,

			changes in a population of organizations in an ecological context provided by the host society	population of organisations, ecological context, host society
--	--	--	--	---

1999	Thornton	<i>Evolutionary Approaches</i>	Defines entrepreneurship as the creation of new organizations which occurs as a context-dependent, social and economic process	Creation of new organizations, context dependent, social and economic process
2001	Aldrich	Evolutionary Approaches	Explore variation in organizational behavior on account of intentional actions of agents seeking solutions to actions	Explore Variation, organisational behaviour , intentional actions, seeking
				Solution to action

2002	Stam	Evolutionary Approaches	Focus on individual rather than groups. Evolutionary and institutional analysis are combined with time-geography derived by economic geography	Focus on individual, Evolutionary and institutional analysis, time geography, economic geography
------	------	-------------------------	---	--

Source: Cherukara & Manalel (2011)

Self-Assessment Exercises 3

1. Discuss the contribution of four theorist to the sociological theory (identify the key terms,highlight of the theory)

**3.8.Summary**

The contributors of these scholars to the sociological school of entrepreneurship cannot be quantified. These theorists have been able to bring their various perspectives into the sociology of the entrepreneur. In the summary of contributors, we were able to discuss their key terms, school of thoughts and highlight of the theories accordingly.

From this unit, we have been able to do justice to the following;

- Contribution of Max Weber
- Contribution of Leland Jenks
- Contribution of Thomas Cochran

- Contribution of Social marginality
- Contribution of innovation theory
- Summary and key terms of contributors

### 3.10. References/Further Readings/Web Resources

Bygrave W. D. & Hofer C. W. (1991). Theorizing about Entrepreneurship, *Entrepreneurship Theory and Practice*, winter 1991, pp. 11-22

Carroll, G.R. & O.M. Khessina. (2005). The Ecology Of Entrepreneurship, *Handbook of Entrepreneurship Research: Disciplinary Perspectives*, Chapter 8:167-200, Springer.

[http://forum.johnson.cornell.edu/faculty/khessina/Chapter12\\_Handbook%20Of%20Entrepreneurship.pdf](http://forum.johnson.cornell.edu/faculty/khessina/Chapter12_Handbook%20Of%20Entrepreneurship.pdf)

Carton R. B., Hofer C. W., Meeks M. D., The Entrepreneur and Entrepreneurship: Operational Definitions of Their Role In Society, <http://www.sbaer.uca.edu/research/icsb/1998/32.pdf>

Cherukara, J.M. & Manale, J.I. (2011). Evolution of Entrepreneurship theories through different schools of thought. The Ninth Biennial Conference on Entrepreneurship at EDI, Ahmedabad

Drucker P. F (1964). *Managing for Results*, Harper & Row, New York, 1964, p.5

Drucker, P. F (1985). *Innovation and Entrepreneurship*. New York: Harper & Row, p.143.

McClelland, D.(1961). *The Achieving Society*, New Jersey: Van Nostrand Company Inc. Princeton..



Shapiro A. & Sokol, L. (1975). *The Social Dimensions of Entrepreneurship*,  
U.K: Kenton and Vesper, pp 72–88.

Virtanen, M. (1997). The Role of Different Theories in Explaining  
Entrepreneurship <http://usasbe.org/knowledge/proceedings/proceedingsDocs/USASBE1997proceedingsP109Virtanen.P>

Schumpeter, J.A. (1991), *Assays on Entrepreneurs, Innovations, Business  
Cycles and The Evaluation of Capitalism*, New Brunswick and  
London, Transactions Publications.

Ahmet TIRYAKI Theories of Entrepreneurship: A Critical Overview

### **1.13 POSSIBLE ANSWERS TO SELF- ASSESSMENT EXERCISES**

#### **ANSWERS TO SAEs 1**

##### **Contribution of Max Weber**

Max Weber was a famous sociologist and political economist of German origin. His writings in the early 20th century have tremendously influenced sociological, religious and political thinking today. In his book 'the theory of social and economic organizations' edited by Parsons (1964) Weber asserts that 'entrepreneurship is a function of religious beliefs and the impact of religion shapes the entrepreneurial culture. He argues that 'entrepreneurial energies are exogenous i.e. they are come from external factors, and are fuelled by religious aspects. Weber argues that the rise of capitalism in Northern Europe was due to the protestant theology which inspired many followers to engage in work, open up enterprises, accumulate wealth and make investments.

Weber stresses the goodness of work—the individual's work is regarded as calling which is the literal concept of vocation. Financial rewards are considered as God's blessings. Protestant values called for self-restraint, and the accumulation of productive assets. The transformation of drive provided by protestant ethics to entrepreneurial ventures on account of experimental

science, rational authority streaming from Roman law and rational govt. administrations.

Max Weber opined that entrepreneurship development arises only within a social group which holds similar value with protestant ethic. He argued that the system of value facilitates entrepreneurship in the following ways;

- i. A system of values can provide a coherent moral argument for entrepreneurial behavior
- ii. Moral beliefs act autonomously on men's mind, forming character, which conceives entrepreneurship as a duty.
- iii. Value which is embedded in an institution defines groups with social cohesion and brings economic advantage.

## **ANSWERS TO SAEs 2**

### **Contribution from the Innovation Theory (Joseph Schumpeter)**

Schumpeter (1991) defines entrepreneur as someone who establishes a new business to produce a new product or to make an old product in a new way. In his work, the entrepreneur takes the center stage of socioeconomic development. He takes the role of socioeconomic leader since he has the ability to decide, to direct, to push matters through. The Schumpeterian entrepreneur differs from imitators in applying new methods of production on the market, in opening up new markets. This creative ability differences gives entrepreneur a chance of accumulation of a surplus but this eroded as imitators appear in the market using same methods. Thus, the temporary monopoly profits made by the entrepreneur shows the dynamic of the capitalist system and also show that each cycle of innovations by entrepreneurs is the main cause of business cycles. profit. The profit for Schumpeter is the result of innovation and also the inducement to innovation and only the capitalist system allows the successful entrepreneur to take profit. With his analysis unlike Marshall, Schumpeter is able to explain

how the system works and where the profits come from.

There are some criticisms against Schumpeter's creative destruction theory:

- Schumpeter puts all the responsibility of innovations on the shoulders of 'great man'. However, if innovations and the act of pushing them through commercially are carried out not by individuals, but by a generation, then the contrast between the leader and imitators irrelevant.

**ANSWERS TO SAEs 3**

**Contributors to the Sociology Theory of Entrepreneurship**

Year	Author	School of thought	Highlight of Theory	Key terms
1904-1906	Weber		Entrepreneurship determined by religious concepts	Religious concepts
1949	Jenks	Entrepreneurial History	Development of entrepreneurship through Social roles	Social roles
1963	Hoselitz	Social Marginality	Social and ethnic minorities show high level of entrepreneurship	Social, ethnic Minorities
1971	Young	Social Marginality	Resourceful, group solidarity, reactive due to low status recognition or denial to access	Group solidarity, low status recognition

1997	Hannah & Freeman	Evolutionary Approaches	Brought out evolutionary approach known as Population Ecology focused on presence, characteristics, and	Evolutionary approach, Population ecology,
------	---------------------	----------------------------	--	---

## **MODULE 4**

### **UNIT 1: ENTREPERNEURSHIP DEVELOPMENTS IN NIGERIA**

#### Unit Structure

- 1.1. Introduction
- 1.2 Learning Outcomes
- 1.3 Entrepreneurship development in Nigeria
- 1.4. Challenges of Entrepreneurship in Nigeria
- 1.5. Contribution of entrepreneurship to socio-economic development of Nigeria
- 1.6 Summary
- 1.7 Reference/Further Reading/Web Resources
- 1.8 Possible Answers to Self- Assessment Exercise(s)

#### **1.1 Introduction**

This unit will introduce you to entrepreneurship development in Nigeria by looking at its evolution, challenges confronted in entrepreneurship and its contribution of entrepreneurship to socio-economic development in Nigeria.

#### **1.2 Learning Outcomes**

By the end of this unit, you will be able to;

- Discuss the evolution of entrepreneurship development in Nigeria
- Identify the challenges of entrepreneurship in Nigeria
- Explain contribution of Entrepreneurship to Socio-Economic Development of Nigeria

#### **1.3 Entrepreneurship Development in Nigeria**

Entrepreneurship is one of the economic variables that have attracted the attention of

governments and scholars of both developed and developing countries. Several efforts and initiatives have been geared by governments and Non-Governmental Organizations (NGOs) in order to promote entrepreneurship and its contribution to the overall economic growth and development especially in Nigeria. The practice of entrepreneurship started when people produced more products than they needed, as such, they had to exchange these surpluses. Hence, the concept of trade by barter was introduced.

Traditionally, Nigeria was running an agricultural economy. The produce was notably palm oil, cacao/cocoa, rubber, and groundnuts (peanuts). At this time, Nigeria had entrepreneurs who had the entrepreneurial mind-set prevalent at the time. The peoples of Hausa, Ibo, Yoruba and Benin all had their own entrepreneurs (13th-19th century), who were exposed to entrepreneurship opportunities outside their native areas. The Hausas had astute entrepreneurs with skills in tanning, dyeing, weaving, and metalworking which were highly developed. The Ibos also specialized in buying and selling goods and perfected their entrepreneurial expertise in inventory control, management and distribution – which up till today, has remained their prevalent way of entrepreneuring.

The Yoruba were predominantly town dwellers who practiced small-scale, domestic agriculture and are well known as traders and craftspeople. Since the 13th century, Yoruba artists have been producing masterpieces of woodcarving and bronze casting. Like the Ibos, the finished products were traded on as business ventures and enterprises. The role of government in entrepreneurship development in Nigeria became significant only after the Nigeria civil war (1967-70). Since the mid-1980s there has been an increased commitment of government to entrepreneurship development especially after the introduction of the Structural Adjustment Program (SAP) in 1986. Added to this is the establishment of the National Directorate of Employment (NDE), National Open Apprenticeship Scheme (NOAS) and, the Small and Medium Enterprise

Development Association of Nigeria (SMEDAN) (Thaddeus, 2012). Basically the Nigerian government has promoted entrepreneurial culture through initiatives that build business confidence, positive attitude, pride in success, support and encouragement of new ideas, social responsibility, providing technological supports, encouraging inter-firm linkages and promotion of research and development.

In the early 2000s, entrepreneurship studies were introduced into the Nigerian educational system especially in higher institutions as a mandatory course. The Centre for Entrepreneurship Development (CED), which main objective was teaching and encouraging students of higher institutions (especially those in the sciences, engineering and technological (SET)) to acquire entrepreneurial, innovative, and management skills, was established. The major goal of the establishment is to make the graduates self-employed, create job opportunities and to generate wealth (Thaddeus, 2012). Entrepreneurship development in Nigeria became significant after the Nigerian civil war. At the end of the war, the 2nd National Development Plan was focused on the development of the 3Rs objectives of Reconstruction, Re-development and Reconciliation. The activities in the plan challenged/tasked the ingenuity and inventive skill of the individuals.

#### Self-Assessment Exercises 1

1. Briefly discuss the development of entrepreneurship in Nigeria

### 1.4 Challenges of Entrepreneurship in Nigeria

Successive governments in Nigeria have emphasized the need for the development of enterprises in order to reduce the rate of unemployment and poverty level. Entrepreneurs have witnessed several issues in starting out their business venture.

According to Nwachukwu (2012), highlighted some of these problems;

- i. Poor inter and intra-sectoral linkages which has made it difficult for the SMEs to enjoy economies of scale production, bureaucratic bottlenecks and inefficiency in the administration of incentives that discourage the growth of SMEs
- ii. Multiplicity of regulatory agencies and taxes that have always resulted in high cost of doing business
- iii. Weak demand for products arising from low and dwindling consumer purchasing power
- iv. Limited access to long-term capital, high cost of even short-term financing, poor partnership spirit
- v. Poor corporate governance and low entrepreneurial skills arising from inadequate educational and technical background for many SME promoters.
- vi. Poor electricity supply

Another crucial problem is the issue of transportation. Majority of the roads are dilapidated leading to unwarranted road accidents and unnecessary delays. Security is also a major problem for entrepreneurs as there no assurance of safety of lives and property hence, the entrepreneurs has to arrange for their private security personnel in other to secure its facilities. Most of those arrangements do not come cheap as it reduces or erodes the profit margin of the entrepreneur whose primary objective is profit maximization.

#### Self-Assessment Exercises 2

1. What solutions can you proffer to challenges witnessed by entrepreneurship in Nigeria.



### 1.5 Contribution of Entrepreneurship to Socio-economic Development in Nigeria

Nigeria as a country has numerous business and investment potentials due to the abundant, vibrant and dynamic human and natural resources it possesses. Tapping these resources require the ability to identify potentially useful and economically viable fields of endeavors. Nigerians have made their marks in diverse fields such as science, technology, academics, business and entertainment. Specifically, one of the areas that entrepreneurship has contributed to the socio-economic development of Nigeria is in employment creation. Although the rate of unemployment is still high, suffice to say that entrepreneurship has help in providing a safety net for some group of people, especially in the hidden economy or informal sector. Many young people who could not find a job in the formal sector have found succor in the informal sector where they either work for medium or small size business owners or establish their own small businesses that provide one kind of service or the other to the firms or organizations in the formal sector.

Adeoye (2015) highlighted some of the impact entrepreneurship has on socio-economic development which include;

- i. Entrepreneurship has contributed significantly to Nigeria's economy development, because it has created more employment for job seekers;
- ii. The unfavorable economic condition has not allowed entrepreneurship development to promote Nigeria's economic development.
- iii. Corruption and nepotism have made government efforts to promote entrepreneurship to below expectation; hence no significant contribution has been made.
- vii. The large-scale unemployment that bedevils the economy shows that no significant improvement has been made in the area of entrepreneurship development
- v. The contribution of entrepreneurship to Nigeria 's economic development is

- marginal due to the lack of access to capital.
- vi. Entrepreneurship has fostered wealth creation and created employment in Nigeria extensively.

#### Self-Assessment Exercises 3

1. What is the contribution of entrepreneurship to socio-economic development in Nigeria.

### 1.6 SUMMARY

The development of entrepreneurship in Nigeria started through trade by barter where individuals exchange their products with one another. The contribution of entrepreneurship to the socio-economic development in Nigeria cannot be over emphasized.

### 1.7 References/Further Reading/Web Resources

- Adeoye, .A. (2015). The effect of entrepreneurship on economy growth and development in Nigeria. *International Journal of Development and Economic Sustainability*, 3(2), 49-65.
- Nwachukwu, A. C. (2012). The role of entrepreneurship in economic development: The Nigerian perspective. *European Journal of Business and Management*. 8(4), 95-105
- Thaddeus, E. (2012). Perspectives: entrepreneurship development & growth of enterprises in Nigeria. *Entrepreneurial Practice Review*, 2(2), 31-35.
- Metu, A.G. & Nwokoye, E.S. (2014). Entrepreneurship development in Nigeria: Prospects and Challenges. The International Conference on Entrepreneurship: Strategy for Socio-Economic advancement in Emerging Economies, pgs 1-14.

Ikeije, U.U & Onuba, C.O (2015). Contributions and challenges of entrepreneurship in Nigeria: A sociological analysis. *European Journal of Business and Innovation Research*, 3(3), 1-9,

### **3.14 POSSIBLE ANSWERS TO SELF- ASSESSMENT EXERCISES**

#### **ANSWQERS TO SAEs 1**

Entrepreneurship is one of the economic variables that have attracted the attention of governments and scholars of both developed and developing countries. Several efforts and initiatives have been geared by governments and Non-Governmental Organizations (NGOs) in order to promote entrepreneurship and its contribution to the overall economic growth and development especially in Nigeria. The practice of entrepreneurship started when people produced more products than they needed, as such, they had to exchange these surpluses. Hence, the concept of trade by barter was introduced.

Traditionally, Nigeria was running an agricultural economy. The produce was notably palm oil, cacao/cocoa, rubber, and groundnuts (peanuts). At this time, Nigeria had entrepreneurs who had the entrepreneurial mind-set prevalent at the time. The peoples of Hausa, Ibo, Yoruba and Benin all had their own entrepreneurs (13th-19th century), who were exposed to entrepreneurship opportunities outside their native areas. The Hausas had astute entrepreneurs with skills in tanning, dyeing, weaving, and metalworking which were highly developed. The Ibos also specialized in buying and selling goods and perfected their entrepreneurial expertise in inventory control, management and distribution – which up till today, has remained their prevalent way of entrepreneuring.

**ANSWERS TO SAEs 2**

1. Poor inter and intra-sectoral linkages which has made it difficult for the SMEs to enjoy economies of scale production, bureaucratic bottlenecks and inefficiency in the administration of incentives that discourage the growth of SMEs
2. Multiplicity of regulatory agencies and taxes that have always resulted in high cost of doing business
3. Weak demand for products arising from low and dwindling consumer purchasing power
4. Limited access to long-term capital, high cost of even short-term financing, poor partnership spirit
5. Poor corporate governance and low entrepreneurial skills arising from inadequate educational and technical background for many SME promoters.

**ANSWERS TO SAEs 3****Contribution of entrepreneurship to socio-economic development in Nigeria.**

Nigeria as a country has numerous business and investment potentials due to the abundant, vibrant and dynamic human and natural resources it possesses. Tapping these resources require the ability to identify potentially useful and economically viable fields of endeavors. Nigerians have made their marks in diverse fields such as science, technology, academics, business and entertainment. Specifically, one of the areas that entrepreneurship has contributed to the socio-economic development of Nigeria is in employment creation. Although the rate of unemployment is still high, suffice to say that entrepreneurship has help in providing a safety net for some group of people, especially in the hidden economy or informal sector. Many young people who could not find a job in the formal sector have found succor in the informal sector where they either work for

medium or small size business owners or establish their own small businesses that provide one kind of service or the other to the firms or organizations in the formal sector.

## **UNIT 2: FOSTERING A CULTURE OF ENTREPRENEURSHIP IN NIGERIA**

### Unit Structure

#### 2.1 Introduction

#### 2.2 Learning Outcomes

#### 2.3 Fostering a culture of entrepreneurship in Nigeria

##### 2.3.1 The role of education in developing entrepreneurial skills

##### 2.3.2 Government initiatives and support programs

##### 2.3.3 Importance of mentorship and role models

#### 2.4 Summary

#### 2.5 References/Further Reading/Web Resources

#### 2.6 Possible Answers to self- Assessment Exercise(s)

### **2.1 Introduction**

In previous units, we discussed about the contribution of various theorist to entrepreneurship development. However, in this unit we shall discuss fostering a culture of entrepreneurship in Nigeria.

### **2.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Discuss the role of education in developing entrepreneurial skills
- Explain government initiatives and support programs
- Identify importance of mentorship and role models

## **2.3 Fostering a Culture of Entrepreneurship in Nigeria**

### **2.3.1 The Role of Education in Developing Entrepreneurial Skills in Fostering a Culture of Entrepreneurship in Nigeria**

Nigeria boasts a vibrant entrepreneurial spirit, yet faces challenges like youth unemployment. Education plays a crucial role in equipping Nigerians with the skills and mindset to thrive in this landscape. Here's how education can foster a culture of entrepreneurship:

#### **1. Shifting Mindsets:**

- **Traditional vs. Entrepreneurial:** The Nigerian education system, often focused on rote learning and securing salaried jobs, needs to shift towards fostering creativity, innovation, and problem-solving – hallmarks of an entrepreneurial mindset.
- **Risk-Taking and Opportunity Recognition:** Entrepreneurship education can expose students to the concept of calculated risks and teach them to identify business opportunities within challenges faced by their communities.

#### **2. Developing Essential Skills:**

- **Business Fundamentals:** Equipping students with foundational knowledge in areas like accounting, marketing, finance, and legal aspects of running a business provides a strong base for entrepreneurial ventures.
- **Soft Skills:** Communication, teamwork, leadership, and critical thinking skills are crucial for navigating the complexities of starting and managing a business.
- **Digital Literacy:** In today's digital world, understanding online marketing, social media, and e-commerce platforms is essential for entrepreneurial success.

#### **3. Curricular Integration:**

- **Entrepreneurship Courses:** Incorporating dedicated entrepreneurship courses across various disciplines allows students to explore the concept within their field of study, sparking ideas for innovative solutions.
- **Project-Based Learning:** By tackling real-world business challenges through projects and simulations, students develop practical skills in business planning, decision-making, and resource management.
- **Internships and Mentorship Programs:** Connecting students with established entrepreneurs allows them to gain practical experience, learn from industry leaders, and build valuable networks.

#### **4. Fostering a Supportive Environment:**

- **Innovation Hubs and Incubators:** Universities can create spaces where aspiring entrepreneurs can access resources like co-working areas, mentorship, workshops, and potential seed funding.
- **Entrepreneurship Competitions:** Organizing competitions that encourage students to develop innovative business ideas can stimulate creativity, provide early validation, and connect them with potential investors.
- **Celebrating Entrepreneurial Success Stories:** Highlighting successful Nigerian entrepreneurs within the curriculum and through guest lectures can inspire students and demonstrate the viability of this career path.

#### Challenges and Considerations:

- **Curriculum Development:** Integrating entrepreneurship education effectively requires well-designed curriculum updates and adequately trained educators.
- **Resource Constraints:** Universities might face limitations in terms of funding, infrastructure, and qualified faculty to implement robust entrepreneurship programs.

#### Conclusion:

By prioritizing entrepreneurial education, Nigeria can empower its youth with the skills and mindset necessary to become successful entrepreneurs. This, in turn, can lead to increased innovation, job creation, and economic growth across the nation. By addressing challenges and finding creative solutions, Nigeria can cultivate a thriving culture of entrepreneurship and unlock the immense potential of its young people.

### 2.3.2 Government Initiatives and Support Programmes

The Nigerian government recognizes the importance of entrepreneurship for economic development and job creation. Here are some key initiatives and support programs designed to foster a culture of entrepreneurship:

#### 1. Access to Finance:

- **Small and Medium Enterprises Development Agency (SMEDAN):** Provides loans, grants, and capacity building programs to support small and medium-sized enterprises (SMEs), the backbone of the Nigerian entrepreneurial ecosystem.
- **Bank of Industry (BOI):** Offers various financing schemes focused on SMEs, with specific programs for priority sectors and youth entrepreneurs.
- **Central Bank of Nigeria (CBN):** Partners with institutions like SMEDAN to launch initiatives like the Youth Entrepreneurship Development Programme (YEDP) and the Anchor Borrowers' Program (ABP), facilitating access to credit for startups and agricultural ventures.



## 2. Business Skills Development:

- **National Directorate of Employment (NDE):** Offers skills acquisition and empowerment programs to equip aspiring entrepreneurs with the practical knowledge needed to launch and manage businesses.
- **Government Enterprise and Empowerment Programme (GEEP):** Provides microloans to petty traders, artisans, and enterprising youth, promoting financial inclusion and fostering micro-entrepreneurship.

## 3. Enabling Environment:

- **Nigerian Investment Promotion Commission (NIPC):** Creates a conducive environment for both local and foreign investors by simplifying business registration processes, offering tax incentives, and advocating for policies that support entrepreneurship.
- **Reduction of Business Registration Costs:** The government has taken steps to reduce the cost of business registration, making it easier and more affordable for aspiring entrepreneurs to formalize their ventures.

## 4. Incubation and Support Networks:

- **Development of Innovation Hubs:** The government supports the creation of innovation hubs across the country, offering co-working spaces, mentorship programs, and access to resources for startups and young entrepreneurs.
- **Public-Private Partnerships:** The government collaborates with private organizations and NGOs to launch initiatives that provide entrepreneurs with business development services, networking opportunities, and access to technology.

## Challenges and Considerations:

- **Implementation and Effectiveness:** Effective implementation and monitoring of government programs are crucial for ensuring they reach their intended beneficiaries.
- **Bureaucracy and Corruption:** Navigating bureaucratic hurdles and addressing corruption within certain sectors can create challenges for entrepreneurs.
- **Infrastructure Limitations:** Limited access to reliable electricity, internet connectivity, and transportation infrastructure can hinder the growth of new businesses.

Despite these challenges, the Nigerian government's initiatives demonstrate a commitment to fostering a culture of entrepreneurship. By continuing to improve program design, address implementation gaps, and collaborate with stakeholders, the government can empower a new generation of Nigerian entrepreneurs to thrive and contribute to the nation's economic prosperity.

### 2.3.3 Importance of mentorship and role models

#### The Crucial Role of Mentorship and Role Models in Nurturing Nigeria's Entrepreneurial Landscape

Nigeria's entrepreneurial spirit is undeniable. However, fostering a truly thriving culture requires more than just individual drive. Mentorship and strong role models play a vital role in empowering aspiring entrepreneurs and propelling them towards success. Here's why:

#### 1. Guidance and Support:

- **Navigating Challenges:** Entrepreneurs face a multitude of challenges, from securing funding to navigating regulations. Experienced mentors can provide valuable guidance, share practical solutions based on their own experiences, and help mentees avoid common pitfalls.
- **Strategic Decision-Making:** Mentors can offer a sounding board for ideas, helping mentees refine their business plans, make strategic decisions, and adapt to changing market conditions.

#### 2. Knowledge Transfer and Skill Development:

- **Filling Knowledge Gaps:** Mentors can bridge the gap between theoretical knowledge gained in education and the practical realities of running a business.
- **Developing Essential Skills:** Through mentorship, entrepreneurs can acquire valuable skills in areas like financial management, marketing, and team leadership.

#### 3. Building Confidence and Motivation:

- **Inspiration and Encouragement:** Role models who have achieved success in similar contexts can be a source of inspiration for aspiring entrepreneurs. Their stories demonstrate the viability of entrepreneurial ventures and provide a sense of what's possible.
- **Combating Self-Doubt:** The entrepreneurial journey can be isolating and filled with setbacks. Mentors can offer encouragement, validate ideas, and help mentees overcome self-doubt and maintain motivation.

#### 4. Building Networks and Access to Resources:

- **Connecting with Investors and Partners:** Mentors with established networks can connect mentees with potential investors, partners, and other valuable resources crucial for business growth.
- **Finding the Right Talent:** Mentors can offer guidance on recruiting and building strong teams, a critical factor for any successful venture.

#### Examples in the Nigerian Context:

- **Tony Elumelu Foundation:** This foundation provides mentorship, funding, and networking opportunities for aspiring African entrepreneurs, fostering a pan-African entrepreneurial ecosystem.

- **Young Entrepreneurs Forum Nigeria (YEFN):** YEFN connects young Nigerian entrepreneurs with established business leaders through mentorship programs and events.

### **Challenges and Considerations:**

- **Matching Mentors and Mentees:** Finding the right fit between mentors and mentees with compatible backgrounds, industries, and goals is crucial for a successful mentorship relationship.
- **Accessibility and Availability:** Matching aspiring entrepreneurs, particularly those in remote areas, with experienced mentors can be a challenge.
- **Formalizing Mentorship Programs:** Developing well-structured mentorship programs within universities, incubators, and government initiatives can ensure consistency and broader reach.

### **Conclusion:**

Mentorship and strong role models are integral to fostering a robust culture of entrepreneurship in Nigeria. By providing guidance, fostering confidence, and connecting aspiring entrepreneurs with the resources they need, these elements empower them to transform their ideas into thriving businesses, ultimately contributing to Nigeria's economic growth and development.

### **Self-Assessment Exercises 1**

1. Discuss the role of education in developing entrepreneurial skills
2. What is the importance of mentorship and role models

## **2.4 Summary**

In this unit we have recognised that, prioritizing entrepreneurial education, Nigeria can empower its youth with the skills and mindset necessary to become successful entrepreneurs. This, in turn, can lead to increased innovation, job creation, and economic growth across the nation. By addressing challenges and finding creative solutions, Nigeria can cultivate a thriving culture of entrepreneurship and unlock the immense potential of its young people. Mentorship and strong role models are integral to fostering a robust culture of entrepreneurship in Nigeria. By providing guidance, fostering confidence, and connecting aspiring entrepreneurs with the resources they need, these elements empower them to transform their ideas into thriving businesses, ultimately contributing to Nigeria's economic growth and development.

## 2.5 Reference/Further Reading/Web Resources

Yatu, L., Bell, R., & Loon, M. (2018) (l.nuhu@worc.ac.uk) African Journal of Economic and Management Studies Vol. 9, No. 2, pp. 165-177. <http://doi.org/10.1108/AJEMS-08-2016-0120>

(<https://www.investopedia.com/terms/e/entrepreneur.asp>)

## 2.6 POSSIBLE ANSWERS TO SELF- ASSESSMENT EXERCISES

### ANSWERS TO SAEs

#### 1. The Role of Education in Developing Entrepreneurial Skills in Fostering a Culture of Entrepreneurship in Nigeria

Nigeria boasts a vibrant entrepreneurial spirit, yet faces challenges like youth unemployment. Education plays a crucial role in equipping Nigerians with the skills and mindset to thrive in this landscape. Here's how education can foster a culture of entrepreneurship:

##### 1. Shifting Mindsets:

- **Traditional vs. Entrepreneurial:** The Nigerian education system, often focused on rote learning and securing salaried jobs, needs to shift towards fostering creativity, innovation, and problem-solving – hallmarks of an entrepreneurial mindset.
- **Risk-Taking and Opportunity Recognition:** Entrepreneurship education can expose students to the concept of calculated risks and teach them to identify business opportunities within challenges faced by their communities.

##### 2. Developing Essential Skills:

- **Business Fundamentals:** Equipping students with foundational knowledge in areas like accounting, marketing, finance, and legal aspects of running a business provides a strong base for entrepreneurial ventures.
- **Soft Skills:** Communication, teamwork, leadership, and critical thinking skills are crucial for navigating the complexities of starting and managing a business.
- **Digital Literacy:** In today's digital world, understanding online marketing, social media, and e-commerce platforms is essential for entrepreneurial success.

##### 3. Curricular Integration:

- **Entrepreneurship Courses:** Incorporating dedicated entrepreneurship courses across various disciplines allows students to explore the concept within their field of study, sparking ideas for innovative solutions.

- **Project-Based Learning:** By tackling real-world business challenges through projects and simulations, students develop practical skills in business planning, decision-making, and resource management.
- **Internships and Mentorship Programs:** Connecting students with established entrepreneurs allows them to gain practical experience, learn from industry leaders, and build valuable networks.

#### **4. Fostering a Supportive Environment:**

- **Innovation Hubs and Incubators:** Universities can create spaces where aspiring entrepreneurs can access resources like co-working areas, mentorship, workshops, and potential seed funding.
- **Entrepreneurship Competitions:** Organizing competitions that encourage students to develop innovative business ideas can stimulate creativity, provide early validation, and connect them with potential investors.
- **Celebrating Entrepreneurial Success Stories:** Highlighting successful Nigerian entrepreneurs within the curriculum and through guest lectures can inspire students and demonstrate the viability of this career path.

#### **4 What is the importance of mentorship and role models**

##### **The Crucial Role of Mentorship and Role Models in Nurturing Nigeria's Entrepreneurial Landscape**

Nigeria's entrepreneurial spirit is undeniable. However, fostering a truly thriving culture requires more than just individual drive. Mentorship and strong role models play a vital role in empowering aspiring entrepreneurs and propelling them towards success. Here's why:

#### **1. Guidance and Support:**

- **Navigating Challenges:** Entrepreneurs face a multitude of challenges, from securing funding to navigating regulations. Experienced mentors can provide valuable guidance, share practical solutions based on their own experiences, and help mentees avoid common pitfalls.
- **Strategic Decision-Making:** Mentors can offer a sounding board for ideas, helping mentees refine their business plans, make strategic decisions, and adapt to changing market conditions.

#### **2. Knowledge Transfer and Skill Development:**

- **Filling Knowledge Gaps:** Mentors can bridge the gap between theoretical knowledge gained in education and the practical realities of running a business.
- **Developing Essential Skills:** Through mentorship, entrepreneurs can acquire valuable skills in areas like financial management, marketing, and team leadership.

#### **3. Building Confidence and Motivation:**

- **Inspiration and Encouragement:** Role models who have achieved success in similar contexts can be a source of inspiration for aspiring entrepreneurs. Their stories demonstrate the viability of entrepreneurial ventures and provide a sense of what's possible.
- **Combating Self-Doubt:** The entrepreneurial journey can be isolating and filled with setbacks. Mentors can offer encouragement, validate ideas, and help mentees overcome self-doubt and maintain motivation.

#### **4. Building Networks and Access to Resources:**

- **Connecting with Investors and Partners:** Mentors with established networks can connect mentees with potential investors, partners, and other valuable resources crucial for business growth.
- **Finding the Right Talent:** Mentors can offer guidance on recruiting and building strong teams, a critical factor for any successful venture.

#### **Examples in the Nigerian Context:**

- **Tony Elumelu Foundation:** This foundation provides mentorship, funding, and networking opportunities for aspiring African entrepreneurs, fostering a pan-African entrepreneurial ecosystem.
- **Young Entrepreneurs Forum Nigeria (YEFN):** YEFN connects young Nigerian entrepreneurs with established business leaders through mentorship programs and events.

## **UNIT 3: CONTRIBUTION OF SUCCESSFUL NIGERIAN ENTREPRENEURS TO ENTREPRENEURSHIP DEVELOPEMNT**

### Unit Structure

- 3.1 Introduction
- 3.2. Learning Outcomes
- 3.3. Contributors to entrepreneurship development in Nigeria
  - 3.3.1. Aliko Dangote
  - 3.3.2 Chidi Anyaegba
  - 3.3.3 Mike Adenuga Junior
  - 3.3.4 Obateru Akinruntan
  - 3.3.5 Paul Okafor
  - 3.3.6 Razaq Okoya
  - 3.3.7 Uche Uche Ohafia
- 3.4. Summary
- 3.5. Reference/Further Reading/Web Resources
- 3.6 Possible Answers to Self- Assessment Exercise(s)

### **3.1 Introduction**

In previous units, we discussed about the contribution of various theorist to entrepreneurship development. However, in this unit, we shall discuss contribution of notable entrepreneurs to entrepreneurship development in Nigeria.

### **3.2. Learning Outcomes**

By the end of this unit, you will be able to:

- Discuss contributions of notable entrepreneurs in Nigeria and their impact towards entrepreneurship development in Nigeria.

### **3.3 Contribution of Notable entrepreneurs to entrepreneurship development in Nigeria**

#### **3.3.1 Aliko Dangote**

Mallam Aliko Dangote was born on the 10<sup>th</sup> of April, 1957. Aliko Dangote is the owner of the Dangote Group, which has interests in commodities. The company is operational in Nigeria and other African countries, including Benin, Ethiopia, Senegal, Cameroon, Ghana, South Africa, Togo, Tanzania, and Zambia. As of July 2017, he had an estimated net worth of US\$14.2 billion.

Dangote is ranked by Forbes magazine as the 67<sup>th</sup> richest person in the world and the richest man in Africa; he peaked on the list as the 23<sup>rd</sup> richest person in the world in 2014. He surpassed Saudi-Ethiopian billionaire Mohammed Hussein Al Amoudi in 2013 by over \$2.6 billion to become the world's richest person of African descent. The Dangote Group was established as a small trading firm in 1977, the same year Dangote relocated to Lagos to expand the company. Today, it is a multi-trillion naira conglomerate with many of its operations in Benin, Ghana, Nigeria, and Togo. Dangote has expanded to cover food processing, cement manufacturing, and freight. The Dangote Group also dominates the sugar market in Nigeria and is a major supplier to the country's soft drink companies, breweries, and confectioneries. The Dangote Group has moved from being a trading company to being the largest industrial group in Nigeria including Dangote Sugar Refinery, Dangote Cement, and Dangote Flour.

#### **3.3.2 Chidi Anyaegbu**

Chidi Anyaegbu is regarded as ‘\_King’ of the transport industry in Nigeria. He founded the Chisco Transport Limited which is one of the biggest in the Nigerian transport industry in 1978.

The company has evolved from a micro auto parts retailer into a leading transporter and brand



diversified to deliver excellence in end to end passenger transportation/integrated logistics with ancillary service offerings that cut across Real Estate (development/management), Hospitality (Hotel & Accommodation), Oil & Gas (product development/distribution), Auto parts Dealership etc.

Over the years, Chisco Transport Limited grew to become the Chisco Group. The operational excellence has horned over 36 years and their uncompromising drive to deliver great customer experience sets them apart as a leading indigenous transport/integrated logistics Brand in Nigeria, has over 500 fleet capacity, which is visible in pan Nigeria and the West Coast of Africa.

### **3.3.3 Mike Adenuga Junior**

This entrepreneur was born in 1953. Mike Adenuga, Nigeria's second richest man, built his fortune in telecom and oil production. His mobile phone network, Globacom, is the second largest operator in Nigeria with 36 million subscribers; it also has operations in Ghana and the Republic of Benin. His exploration outfit, Conoil Producing, operates 6 oil blocks in the Niger Delta. He also owns real estate firm Proline Investments, which has hundreds of properties throughout Nigeria. Adenuga studied in the United States, getting an MBA at Pace University in New York, where he worked as a taxi driver to support himself. He returned to Nigeria and made his first fortune trading lace and Coca-Cola. Along the way he made friends with Nigerian military bigwigs who awarded him lucrative state contracts; those formed the foundation of his fortune. His estimated net worth is lower this year due to the drop in value of Nigeria's currency, challenges in the oil sector, and overall weakness in Nigeria's economy. As at July 2017, his net worth is \$6.1billion

### **3.3.4 Obateru Akinruntan**

**Obateru Akinruntan** hails from the Royal family in Ondo State, Nigeria. He is a graduate of Business Administration from Lead City University Ibadan and also a monarch. He established

the Obat Oil and Petroleum Limited in 1981, a company that is into the marketing of petroleum product nation-wide, and has the largest privately owned oil depot and jetty in Africa. His business interests has grown steadily over the years to become the Obat Group which has interests in petroleum, fishery, construction, tourism and hospitality, shipping, consultancy services and water purification and production.

### 3.3.5 Paul Okafor

**Paul Okafor** established the Elbe Pharma, an organization that deals with the importation and marketing of pharmaceutical products such as Amalar anti malaria tablets, Solotone multivitamin etc.

### 3.3.6 Razaq Okoya

**Razaq Okoya** was born in Lagos on 12<sup>th</sup> January 1940. He is a billionaire industrialist and Aare of Lagos. He had his only formal education at Ansar-un-deen Primary School, Oke popo, Lagos. He is the owner and founder of Eleganza group of companies, which has a market spanning Western Africa.

The Eleganza Industries produces a wide range of household goods and utensils including cutlery, collieries, food warmers, ice chest, electric fan, cosmetics and ballpoint pen. His factory locations include, Oregun-Ikeja, Isolo, Alaba and Iganmu, the Company now directly employs over five thousand Nigerians and non-Nigerians including those working in his RAO Property Investment Company. Okoya's Eleganza Group is one of the biggest homegrown conglomerates in Nigeria today, with over six factories, and its products are household names in Nigeria neighbouring African markets. He was awarded the Lifetime Achievement Award as Business Entrepreneur of Our Time from Thisday Newspapers

### 3.3.7 Uche Uche Ohafia

This is another notable Nigerian entrepreneur in the shipping industry. He created the Trans Atlantic Shipping Agency Limited. The company is into air freight, shipping line agency and charter services, import and export agency, collateral management and warehousing services among others.

#### Self-Assessment Exercises 1

1. Mention three entrepreneurs in Nigeria and their contribution to entrepreneurship

### 3.4 SUMMARY

In this unit, we have identified successful entrepreneurs in Nigeria and their contribution towards entrepreneurship development.

From this unit, we have discussed the contribution of notable entrepreneurs in Nigeria

### 3.5 REFERENCES/FURTHER READING/WEB RESOURCES

### 3.6 POSSIBLE ANSWERS TO SELF- ASSESSMENT EXERCISES

#### ANSWERS TO SAEs

##### **Aliko Dangote**

Mallam Aliko Dangote was born on the 10<sup>th</sup> of April, 1957. Aliko Dangote is the owner of the Dangote Group, which has interests in commodities. The company is operational in Nigeria and other African countries, including Benin, Ethiopia, Senegal, Cameroon, Ghana, South Africa, Togo, Tanzania, and Zambia. As of July 2017, he had an estimated net worth of US\$14.2 billion.

Dangote is ranked by Forbes magazine as the 67th richest person in the world and the richest man in Africa; he peaked on the list as the 23rd richest person in the world in 2014. He surpassed Saudi-Ethiopian billionaire Mohammed Hussein Al Amoudi in 2013 by over \$2.6 billion to become the world's richest person of African descent. The Dangote Group was established as a small trading firm in 1977, the same year Dangote relocated to Lagos to expand the company. Today, it is a multi-trillion naira conglomerate with many of its operations in Benin, Ghana, Nigeria, and Togo. Dangote has expanded to cover food processing, cement manufacturing, and freight. The Dangote Group also dominates the sugar market in Nigeria and is a major supplier to the country's soft drink companies, breweries, and confectioneries. The Dangote Group has moved from being a trading company to being the largest industrial group in Nigeria including Dangote Sugar Refinery, Dangote Cement, and Dangote Flour.

### **Chidi Anyaegbu**

Chidi Anyaegbu is regarded as ‘King’ of the transport industry in Nigeria. He founded the Chisco Transport Limited which is one of the biggest in the Nigerian transport industry in 1978. The company has evolved from a micro auto parts retailer into a leading transporter and brand diversified to deliver excellence in end to end passenger transportation/integrated logistics with ancillary service offerings that cut across Real Estate (development/management), Hospitality (Hotel & Accommodation), Oil & Gas (product development/distribution), Auto parts Dealership etc.

Over the years, Chisco Transport Limited grew to become the Chisco Group. The operational excellence has horned over 36 years and their uncompromising drive to deliver great customer experience sets them apart as a leading indigenous transport/integrated logistics Brand in Nigeria, has over 500 fleet capacity, which is visible in pan Nigeria and the West Coast of Africa.

**Mike Adenuga Junior**

This entrepreneur was born in 1953. Mike Adenuga, Nigeria's second richest man, built his fortune in telecom and oil production. His mobile phone network, Globacom, is the second largest operator in Nigeria with 36 million subscribers; it also has operations in Ghana and the Republic of Benin. His exploration outfit, Conoil Producing, operates 6 oil blocks in the Niger Delta. He also owns real estate firm Proline Investments, which has hundreds of properties throughout Nigeria. Adenuga studied in the United States, getting an MBA at Pace University in New York, where he worked as a taxi driver to support himself. He returned to Nigeria and made his first fortune trading lace and Coca-Cola. Along the way he made friends with Nigerian military bigwigs who awarded him lucrative state contracts; those formed the foundation of his fortune. His estimated net worth is lower this year due to the drop in value of Nigeria's currency, challenges in the oil sector, and overall weakness in Nigeria's economy. As at July 2017, his net worth is \$6.1billion

## **UNIT 4 SPECIALIZED INSTITUTIONS FOR ENTREPRENEURSHIP**

### **DEVELOPMENT IN NIGERIA**

#### Unit Structure

#### 4.1 Introduction

#### 4.2. Learning Outcomes

#### 4.3. Specialized Institutions for Entrepreneurship Development In Nigeria

##### 4.3.1 Nigerian Industrial Development Bank (NIDB)

##### 4.3.2 Nigerian Bank for Commerce and Industry (NBCI),

##### 4.3.3 National Economic Reconstruction Fund (NERFUND),

##### 4.3.4 Nigerian Export-Import Bank (NEXIM)

##### 4.3.5 National Directorate of Employment (NDE),

##### 4.3.6 Bank of Agriculture (BOA)

#### 4.4 Summary

#### 4.5 Reference/Further Reading/Web Resources

#### 4.6 Possible answers to Self- Assessment Exercise(s)

### **4.1 Introduction**

The specialized institution for entrepreneurship development in Nigeria will be discussed. This institution has been set up by the federal government of Nigeria to assist and act as a regulatory framework for entrepreneurs.

### **4.2 Learning Outcomes**

By the end of this unit, you will be able to:

- Discuss Nigerian Industrial Development Bank (NIDB)
- Explain Nigerian Bank for Commerce and Industry (NBCI),
- Discuss The National Economic Reconstruction Fund (NERFUND),
- Explain The Nigerian Export-Import Bank (NEXIM)
- Discuss The National Directorate of Employment (NDE),

- Discuss Bank of Agriculture (BOA)

### **4.3 Specialized Institutions for Entrepreneurship Development In Nigeria**

#### **4.3.1 Nigerian Industrial Development Bank (NIDB)**

NBCI was set up in 1973 to promote the development of small and medium size enterprises (SMEs) in the country. Until it was subsumed under the Bank of Industry, the principal function of the NBCI had been the provision of long-term investment financing and equity funds to SMEs. An Act to establish the Nigerian Bank for Commerce and Industry to provide capital for medium and long-term investments to indigenous bodies and persons engaged in industry and commerce and for matters connected therewith

#### **4.3.2 Nigerian Bank for Commerce and Industry**

##### **Establishment of the Nigerian Bank for Commerce and Industry**

- (1) There is hereby established a bank to be called the Nigerian Bank for Commerce and Industry (in this Act referred to as "the Bank") which shall be a body corporate with perpetual succession.
- (2) The Bank shall have power to sue and be sued in its own name and may for the purposes of its functions, acquire, hold or dispose of property (whether movable or immovable) and shall have a common seal.

## 2. Functions

- (1) The principal functions of the Bank shall be to-
  - (a) provide equity capital and funds by way of loans to indigenous persons, institutions and organisations for medium and long term investments in industry and commerce at such rates and upon such terms as may be determined by the Board in accordance with the policy directed by the President;
  - (b) engage and participate in such other banking and commercial business as may be directed by the Minister.
- (2) Without prejudice to the generality of the foregoing, the Bank shall in particular have power to-

engage in all aspects of merchant banking, particularly, confirmation of bills and financial obligations of third parties and acceptance and discounting of bills; underwrite such stocks, shares and debentures as are issued in furtherance of the policy of the Government; purchase and sell stocks and shares quoted on the Nigerian Stock Exchange; provide guarantees, including guarantees in respect of export credit and letters of credit issued by licensed banks; accept term deposits from the public, financial institutions, trust funds, the post office and such other bodies as the Board may direct; and provide chequing facilities for its customers.
- (3) Any liabilities of the Bank which may be incurred in connection with the exercise of its powers under subsection (2) (a) of this section shall be rediscountable with the Central Bank.



### 4.3.3 The National Economic Reconstruction Fund (NERFUND)

The National Economic Reconstruction Fund (NERFUND) was set up to provide needed medium – to long-term financing to viable Small and Medium scale production enterprises. The grand objectives are to increase the quantum of goods and services available for local consumption and export, provide needed employment, expand our production base and add value to the economy.

The National Economic Reconstruction Fund (**NERFUND**) was established by Decree No. 2 of 1989 to act as a catalyst towards the stimulation of the rapid rise of real production enterprises in the country. The **NERFUND** was specifically mandated to provide long/medium term loans to entrepreneurs through commercial/merchant banks for industrial growth of Nigeria. For the delivery of these services, the institution focused on its vision, mission and mandate as stipulated by its decree.

The National Economic Reconstruction Fund, NERFUND was established in 1989 via Act Cap 254, 1990 Laws of the Federal Republic as an apex institution to help catalyze the development of SMEs. Such SMEs must be wholly Nigerian owned and engaged in the business of manufacturing, mining, quarrying, industrial, support service etc. What are your major mandates? The aims and objectives of the Fund are: to correct any observed inadequacies in the provision of medium to long term financing to small and medium scale industrial enterprises, especially manufacturing and agro-allied enterprises and ancillary services. It is also required to provide medium to long term loans to participating commercial and merchant banks for on-lending to small and medium scale enterprises for the promotion and acceleration of productive activities in such enterprises. In addition it facilitates the provision of loans with five to ten year maturity, including a grace period of one to three years, depending on the nature of the

enterprises or project. It is also mandated to provide such loans either in naira or in foreign currencies or both according to the source of funds available to the Fund and the requirements of the eligible enterprises or project. Read more at: <https://economicconfidential.com/exclusive-interviews/how-nerfund-provides-loans-for-micro-and-smes-in-nigeria/>

At inception, funding for the NERFUND came from local, bilateral and multilateral sources which include Capital fund from Federal Ministry of Finance, Central Bank of Nigeria And other loans from African Development Bank (ADB) and MOFI

#### **4.3.4 NIGERIAN EXPORT IMPORT BANK (NEXIM) PRODUCTS**

The NEXIM bank which replaced the Nigerian Export Credit Guarantee And Insurance The Nigerian Export-Import Bank (NEXIM) was established by Act 38 of 1991 as an Export Credit Agency (ECA) with a share capital of N50, 000,000,000 (Fifty Billion Naira) held equally by the Federal Ministry of Finance Incorporated and the Central Bank of Nigeria. The Bank which replaced the Nigerian Export Credit Guarantee & Insurance Corporation earlier set up under Act 15 of 1988, has the following main statutory functions: –

- 4.3.5 Provision of export credit guarantee and export credit insurance facilities to its clients.
- 4.3.6 Provision of credit in local currency to its clients in support of exports.
- 4.3.7 Establishment and management of funds connected with exports.
- 4.3.8 Maintenance of a foreign exchange revolving fund for lending to exporters who need to import foreign inputs to facilitate export production.
- 4.3.9 Provision of domestic credit insurance where such a facility is likely to assist exports.
- 4.3.10 Maintenance of a trade information system in support of export business.

The Bank presently provides short- and medium-term loans to Nigerian exporters. It also

provides short term guarantees for loans granted by Nigerian Banks to exporters as well as credit insurance against political and commercial risks in the event of non-payment by foreign buyers. The Bank is also the government's National Guarantor under the ECOWAS Inter-state Road Transit programme. Corporation has a share capital of N50 billion held equally by the federal ministry of finance and the central bank of Nigeria.

As stated by Orya (2013), the banks still have the following products to give its customers

- i. Direct Lending Facility (DLF) - NEXIM lends money directly to Nigerian exporters to fund their purchase of capital goods, raw materials, packing materials, spare parts through its direct loan facility. The facility also covers the provision of infrastructure as well as revitalization and modernization of plants and machinery.
- ii. ECOWAS Interstate Road Scheme- The scheme is designed to promote free flow of good among member states of West Africa; free of duties, taxes and restrictions while in transit. In addition, the scheme seeks to eliminate the time wasting escort system and check the diversion of goods consigned to a specific destination.
- iii. EXPORT Credit Guarantee Facility (ECGF) - NEXIM's export credit guarantee facility is designed to protect Nigerian banks against the risks to non-payment for loans or advances granted to exporters to meet short term export contracts. Also, it makes available pre-and post-shipment guarantee for a period of 180 days.
- iv. Export Credit Insurance Facility (ECIF)-NEXIM's export credit insurance facility is designed to protect Nigerian exporters against the risks of non-payment for goods and services exported on credit terms as a result of commercial and political events.
- v. Export Trade Support Facility (ETSF) - This facility involves the granting of a line of credit or guarantee to facilitate the purchase by ECOWAS importer of Nigerians goods.

vi. Foreign Input Facility (FIF) - The facility provides manufacturers of export products with foreign currency loans to import capital equipment, packaging and raw materials to produce finished products for export. The facility has a maximum tenor of seven (7) years inclusive of a moratorium period of not more than two (2) years. It is repayable in foreign currency.

vii. NDE Facility (NDEF) - This product is designed to provide direct financial assistance to qualified Nigerian graduates (the participants in the National Directorate of Employment (NDE)) to enable them undergo tutelage with established exporters under the Start-Your- Own -Business (SYOB) programme, prior to their exporting exportable goods and services themselves.

ix. Rediscounting and Refinancing Facility - This helps banks to provide pre and post shipment finance in local currency to support non-oil exports. The scheme gives exporters access to the bank's export portfolios at preferential rates. There financing scheme provides a bank with credit of up to one year.

#### **4.3.5 National Directorate of Employment**

The National Directorate of Employment (NDE) was established in November 1986. It began operations fully in January 1987. The birth of the Directorate was predicated on the effects of the economic recession of the 80s which led to a drastic reduction in capacity utilization and consequent outright closure of industries in Nigeria.

##### Objectives of NDE

The sole objective of NDE's establishment is to create employment with emphasis on self-reliance and entrepreneurship. In achieving this, it is expected to concentrate its efforts on;

- 3.1.1 Reactivation of public works
- 3.1.2 Promotion of direct labour
- 3.1.3 Promotion of self employment

- 3.1.4 Organization artisans into co-operatives and the encouragement of a culture of maintenance and repairs.

An applicant to the NDE is required to submit the following documents:

- 3.1.5 A comprehensive feasibility report of proposed business
- 3.1.6 The amount of loan needed
- 3.1.7 Names and addresses of two guarantors
- 3.1.8 Curriculum vitae

Successful applicants are given bank loans ranging between N35, 000 and N50, 000. The loan is payable over a period of five years at 13% interest rate, with varying periods of moratorium.

#### NDE SCHEMES

The following are categories of beneficiaries in the NDE schemes:

- 3.3.5.1 Mature People's Scheme: These schemes are for those who are retired or are preparing to retire from paid employment and are willing to maintain an economically productive life.
- 3.3.5.2 School leavers Scheme: This scheme is designed to give youths who graduated from NDE skill acquisition programme and willing to establish their own businesses
- 3.3.5.3 Motorcycle Loan Scheme: it was introduced in 1994 to reduce the difficulties in rural transportation in all states of the federation. The condition for granting this loan is that the beneficiary must
  - 3.3.5.4 Have at least guarantors
  - 3.3.5.5 Deposit the motorcycle license
  - 3.3.5.6 Pay a yearly interest rate of 9% and insurance premium on the motorcycle

3.3.5.7 Where the beneficiary fails to pay for a period of two weeks, the motor cycles will be collected from him.

#### **4.3.6 BANK OF AGRICULTURE**

BOA is Nigeria's premier agricultural and rural development finance institution, 100% wholly owned by the federal government of Nigeria. The ownership structure is – Central Bank of Nigeria (CBN) 40% and Federal Ministry of Finance Incorporated 60%. Bank of Agriculture Limited is supervised by Federal Ministry of Agriculture. The Bank was incorporated as Nigerian Agricultural Bank (NAB) in 1973 and in 1978, was renamed Nigerian Agricultural and Cooperative Bank (NACB). Subsequently in 2000, it was merged with the People's Bank of Nigeria (PBN) and took over the risk assets of Family Economic Advancement Programme (FEAP) to become Nigerian Agricultural Cooperative and Rural Development Bank Limited (NACRDB). A plan to reposition the Bank into an effective and sustainable national agricultural and rural development finance institution in 2010 led to a further name change to Bank of Agriculture Limited (BOA).

It is a federal government owned development bank with a mandate to provide low cost credit to small holder and commercial farmers, and small and medium rural enterprises. It also provides micro financing to small and medium scale nonagricultural enterprises. The aim is to ensure effective delivery of agricultural and rural finance services on a sustainable basis to support the national economic development agenda, including food security, poverty reduction, employment generation, reduction in rural to urban migration, less dependency on imported food items, and increase in foreign exchange earnings.

Functions of the Bank of Agriculture

#### **Credit Functions:**

- Direct lending to qualified loan applicants engaged in agricultural and nonagricultural small businesses
- Providing credit facilities to issuing organizations through on-lending service
- Monitoring the flow of ground level rural credit

Developmental Function:

- Working with cooperative groups at the states and local government level to prepare development action plans for themselves
- Enter into collaborative or on-lending MoU with state governments and cooperative associations and microfinance banks specifying their respective obligations to improve the affairs of the groups and banks within a stipulated timeframe.
- Monitor implementation of development action plans of cooperative associations and micro finance banks and fulfillment of obligations under MoUs.
- Provide financial assistance to cooperatives and micro finance banks for establishment of technical, monitoring and evaluations cells.
- Provide organisation development intervention (ODI) through reputable training institutes like Federal cooperative colleges, Universities of Agriculture, and departments of agriculture of various universities in Nigeria.
- Provide financial support for Federal Cooperative colleges and departments of cooperative studies in various universities and

polytechnics.

- Provide training for senior and middle level executives of local commercial bank branches, micro finance banks and cooperative associations.
- Create awareness among the borrowers on ethics of repayment through local debt collectors and cooperative marshals that enforce timely repayment and prompt remittance of same to the lending institution.
- Provide financial assistance to microfinance banks for building improved management information system, computerization of operations and development of human resources

#### Self-Assessment Exercises 1

1. Mention and discuss any of the four specialized institutions for entrepreneurship development in Nigeria

#### 4.4 Summary

In this unit, we have been able to discuss about the specialized institutions for entrepreneurship development in Nigeria. Some of these institutions serves as regulatory bodies that guide the entrepreneurs and also encourage their development.

From this unit, we have discussed the following;

- Nigerian Industrial Development Bank (NIDB), now Bank of Industry
- The Nigerian Bank for Commerce and Industry (NBCI),
- The National Economic Reconstruction Fund (NERFUND),



- The Nigerian Export-Import Bank (NEXIM)
- The National Directorate of Employment (NDE),
- Bank of Agriculture (BOA)

#### **4.5. Reference/Further Reading/Web Resources**

Emmanuel, C.L (2013). Entrepreneurship: A Conceptual Approach (2nd ed.). Nigeria: Puma

Nigeria Limited

Nigerian Industrial Development Bank (2017). Retrieved from [http:// www.nigerianindustrial](http://www.nigerianindustrialdevelopmentbank.com)

[development bank.com](http://www.nigerianindustrialdevelopmentbank.com)

Nigerian Bank for Commerce and Industry (2017). Retrieved from [http:// www. Nigerian bank for commerce and industry.com](http://www.nigerianbankforcommerceandindustry.com)

National Economic Reconstruction Fund (2017). Retrieved from [http:// www. National](http://www.necrf.com)

[Economic Reconstruction Fund.com](http://www.necrf.com)

Nigerian Export-Import Bank (2017). Retrieved from [http:// www.Nigerian Export-Import Bank.com](http://www.neximbank.com)

National Directorate of Employment (2017). Retrieved from [http:// www. National Directorate of Employment.com](http://www.nde.com)

Bank of Agriculture (2017). Retrieved from [http:// www.Bank of Agriculture.com](http://www.boa.com)

#### **4.6 Possible answers to Self- Assessment Exercise(s)**

Qn. Mention and discuss any of the four specialized institutions for entrepreneurship development in Nigeria

Ans.

- Bank of Agriculture (BOA)
- The Nigerian Export-Import Bank (NEXIM)
- The Nigerian Bank for Commerce and Industry (NBCI),

- Nigerian Industrial Development Bank (NIDB), now Bank of Industry

Discuss each of them as listed above for full mark

