

## **COURSE GUIDE**

### **ENT703 THEORY OF ENTREPRENEURSHIP**

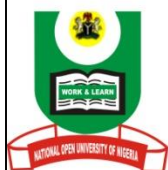
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## **CONTENTS**

Introduction

Course Contents

Course Aims

Course Objectives

Working through This Course

Course Materials

Study Units

Textbooks and References

Assignment File

Assessment

Tutor-Marked Assignment

Final Examination and Grading

How to get the Best out of this Course

Facilitators/Tutors and Tutorials

Useful Advice

Summary

## **COURSE GUIDE**

### **INTRODUCTION**

ENT703 THEORY OF ENTREPRENEURSHIP is a one semester course work having two credit units. It is available to students on PGD. Entrepreneurship in the Department of Entrepreneurial Studies, 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 groom the students in the theories of entrepreneurship in order to understand which prepares them for life journey of entrepreneurship. 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 703 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 Historical background of Entrepreneurship

Unit 3 Classification 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 Role entrepreneurship to economic development in Nigeria

Unit 2 Contribution of successful Nigeria entrepreneurs to entrepreneurship development

Unit 3 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.

## **FACILITATORS/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.

**Module 1**

Unit 1 Concept of Entrepreneurship

Unit 2 Historical background of Entrepreneurship

Unit 3 Classification 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 Contribution of successful Nigeria entrepreneurs to entrepreneurship development

Unit 3 Specialized institutions for entrepreneurship development

# **MODULE 1**

## **UNIT 1      CONCEPT OF ENTREPRENEURSHIP**

### **CONTENTS**

1.0 Introduction

2.0 Objectives

3.0 Main Content

    3.1 Definition of entrepreneurship

    3.2 Views of entrepreneurship

    3.3 Who is an entrepreneur

    3.4 Characteristics of an entrepreneur

4.0 Conclusions

5.0 Summary

6.0 Tutor-marked Assignment

7.0 Reference/Further Reading

### **1.0 INTRODUCTION**

In this unit, we shall define entrepreneurship from various scholars, views of entrepreneurship from various schools, definition of an entrepreneur and characteristics of an entrepreneur.

### **2.0 OBJECTIVES**

In this unit, we shall discuss the following;

- Scholarly definition of entrepreneurship

- Views of entrepreneurship
- Concept of an entrepreneur
- Characteristics of an entrepreneur

### **3.0 MAIN CONTENT**

#### **3.1 DEFINITION OF ENTREPRENEURSHIP**

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

The word entrepreneurship originates 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) who separated entrepreneurial 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”.

Ferreira (2019) defines Entrepreneurship as the act of creating a business or businesses while building and scaling it to generate a profit. Scarborough (2011) states that Entrepreneurship is the process of creating a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them. Hisrich (2002) indicates that Entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assuming accompanying

financial, physical, and social risks and receiving the resulting rewards of monetary and personal satisfaction and independence.

Shaw (2004) and Chaten (2000) define 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) defines 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 into it 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 a new 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 of resources, with confidence and assurance of success, and the flexibility to change topic as necessary and the will to rebound from any setback (Reiss, 2000).

Benjamin Higgins (1961) defines “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 supply of raw materials and finding sites, and combining these factors of production into 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.

### **3.2 Views of Entrepreneurship**

#### **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.

### **B. 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.

### **C. 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 child rearing 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 rest, 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 could produce status withdrawal: (a) displacement by force, (b) denigration of valued 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 ways (vision),
- energy of will and mind to overcome fixed habits of thought,
- an urge to do something,
- to fulfill a dream,
- the capacity to withstand social opposition; and
- the high need for achievement.

### **3.3 Concept of an entrepreneur**

The word "Entrepreneur" is derived from the French verb 'entreprendre'. It means 'to undertake'. In the early 16th century the Frenchmen who organized and led military expeditions were referred as 'Entrepreneurs'. In the early 18th 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 he 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 set up 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 evoke demand, 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 self (both financially and spiritually) and is an "educated" risk taker. Pickle and Abrahamson (1990) sees an entrepreneur as someone who organizes and manages a business, undertakes and assumes the risks for the sake of profit making. 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.

### **Characteristics of an entrepreneur**

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

#### **Desire for Responsibility**

Entrepreneurs have a deep sense of personal responsibility and commitment to their business ventures. They prefer to have control of their own resources and have the freedom to use those resources as they deem fit to achieve self – determined goals.

#### **Preference for Moderate Risk**

Entrepreneurs do not take risks recklessly but instead, they take calculated risks. Their goals may appear to be very high from the perspectives of others but entrepreneurs see the situation from a different angle and are convinced that those goals are attainable. Entrepreneurs spot opportunities in areas of their key abilities, experiences, background, and knowledge which increase their likelihood of success. 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.

### **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 and how to improve their existing processes.

### **Vision**

The entrepreneur is a visionary. One of the major responsibilities of an entrepreneur is to decide the direction the business should go. It requires a strong vision on the part of an entrepreneur to ensure his/her business reach maturity. Entrepreneurs are always searching for opportunities and hence they stay focused on the future.

### **Confidence in their Ability to Succeed**

Entrepreneurs usually have a strong belief that they can succeed and that they have taken the correct path for their career. They are highly optimist and are not deterred by initial failure.

### **High level of Energy**

Successful entrepreneurs are usually very energetic because it takes a lot of effort and time to start up a business. They need to work long and hard; travel to other places if need be and be very committed to the growth and stability of the business.

### **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 the 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 ideas into reality and gives the business a sense of direction.

**Good Communication Skills**

This basically pertains to communicating effectively. An entrepreneur who can effectively communicate with customers, employees, suppliers and creditors will be more likely to succeed than the entrepreneur who cannot.

**Human Skills**

An entrepreneur must have good human relations skills. 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 as an integral unit with inter-relatedness and inter-dependence of various functions and activities as a change in one part will affect the other units. Examples: planning, decision-making, goal setting amongst others.

## **Desire for immediate Feedback**

Entrepreneurs need to know how they are doing and hence need constant feedback. An entrepreneur must have a good feedback system. They do not mind critical feedback as they see it as a way of improving on their business since they enjoy the challenge of running the business.

## **4.0 CONCLUSION**

In the unit, we have been able to discuss 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 succeed in his/her entrepreneurial pursuit among such is; self-motivation, good communication skills, vision, mental ability and so on.

## **5.0 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

## 6.0 TUTOR-MARKED ASSIGNMENT

- Discuss the term “Entrepreneurship” according to four different scholars
- List and explain the characteristics of an entrepreneur
- Critically discuss the various perspectives of entrepreneurship
- Give a detailed explanation of who an entrepreneur is.

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## **UNIT 2**

### **HISTORY OF ENTREPRENEURSHIP DEVELOPMENT**

#### **CONTENTS**

##### **1.0 Introduction**

##### **2.0 Objectives**

##### **3.0 Main Content**

3.1 Evolution of entrepreneurship from the earliest period

3.2 Evolution of entrepreneurship from the Middle East

3.3 Evolution of entrepreneurship from the 17<sup>th</sup> century

3.4 Evolution of entrepreneurship from the 18<sup>th</sup> century

3.5 Evolution of entrepreneurship from the 19<sup>th</sup> century

3.6 Evolution of entrepreneurship from the 20<sup>th</sup> century

3.7 Modern Entrepreneurship (21<sup>st</sup> Century)

##### **4.0 Conclusions**

##### **5.0 Summary**

##### **6.0 Tutor-marked Assignment**

##### **7.0 Reference/Further Reading**

#### **1.0 INTRODUCTION**

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 from 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.

## **2.0 OBJECTIVES**

In this unit, we shall discuss the following;

- Evolution of entrepreneurship from the earliest period
- Evolution of entrepreneurship from middle East
- Evolution of entrepreneurship from the 17<sup>th</sup> century
- Evolution of entrepreneurship from the 18<sup>th</sup> century
- Evolution of entrepreneurship from the 19<sup>th</sup> century
- Evolution of entrepreneurship from the 20<sup>th</sup> century
- Modern Entrepreneurship (21<sup>st</sup> Century)

## **3.0 THEORIES OF ENTREPRENEURSHIP**

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 “entreprendre” which literally is equivalent to the English concept “to undertake” or “go-between”. Entrepreneurship has been traced from the earliest period to the Middle East, 17<sup>th</sup> century down to 21<sup>st</sup> century.

### **3.1 Earliest Period**

Entrepreneurship has existed for more than 20,000 years with the first known trade occurring between humans in New Guinea at about 17, 000 BCE. This early type of entrepreneurship existed for a long time where hunter – gatherers tribes would trade goods from different regions to get what their tribes had need of. The Agricultural revolution which occurred about 12, 000 years ago

caused a major shift in how entrepreneurship was done. People no longer needed to do everything for themselves, instead people concentrated on different tasks making it possible for members of the community to trade valuable goods for food or other goods that they needed. As people increased on the earth, cities began to spring up in different places and Entrepreneurs realized that they could make more profits by trading between cities and cultures. 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.

### **3.2 The Middle East**

In the Middle East, 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.

### **3.3 The 17<sup>th</sup> century**

The connection of risk with entrepreneurship was made 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.

### **3.4 The 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).

### **3.4: 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 nineteen 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

### **3.5 The 20<sup>th</sup> century**

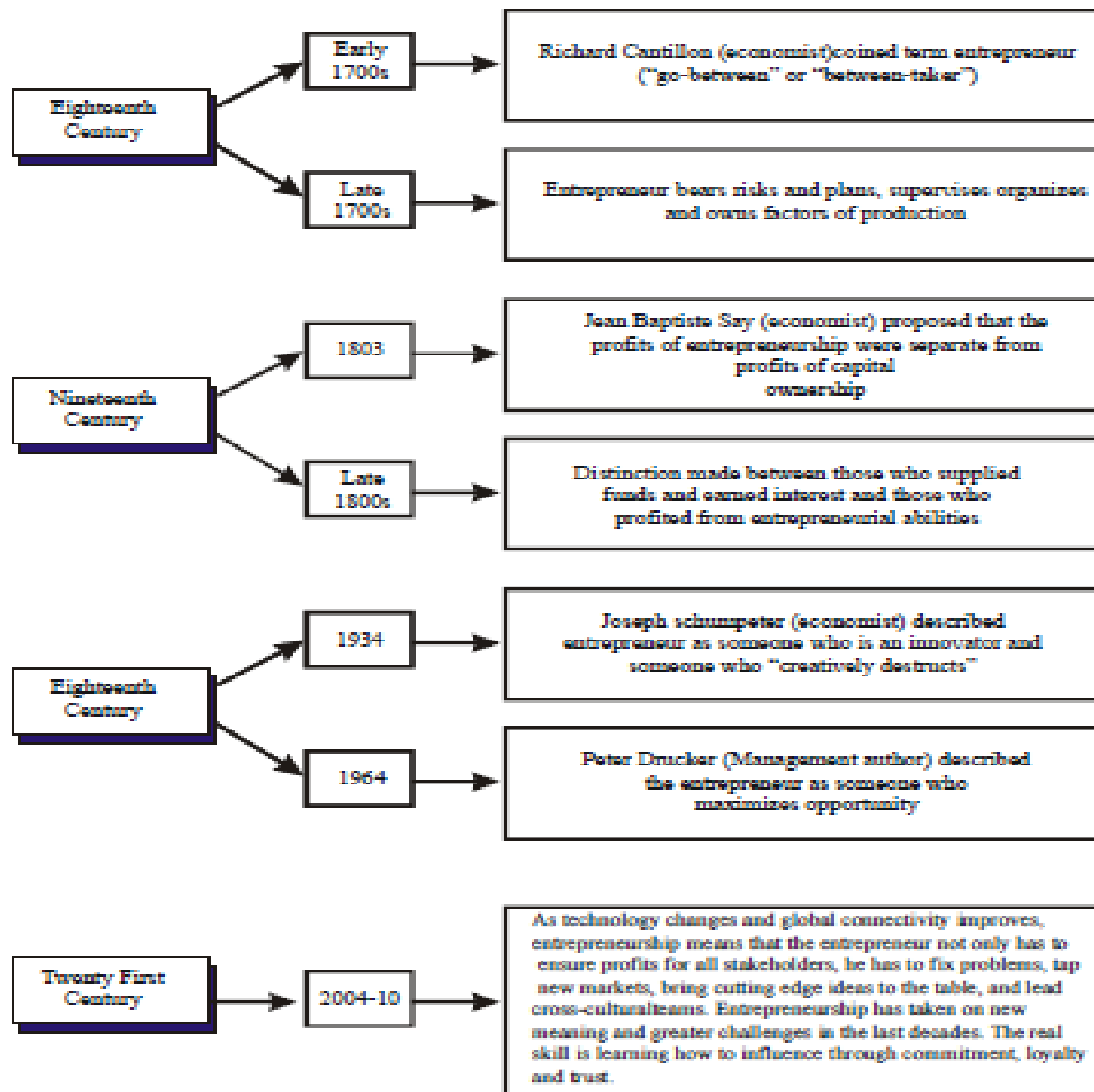
In this era, the focus of entrepreneurship in economic development was through innovation. This was introduced by an economist, Joseph Schumpeter in 1972. In his words, “The function of the entrepreneur is to reform or revolutionize the pattern of production by exploiting an invention or, more generally, 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.

### **3.6 Modern Entrepreneurship (21<sup>st</sup> Century)**

Today in every nation of the world, entrepreneurs are the lifeblood of every economy. They are reshaping the business environment and creating a world in which their companies are able to play crucial roles in the vitality of the global economy. The global economy combined with modern infrastructure and communications has opened up a new age of competition to the world of entrepreneurship. Entrepreneurs now have better access to raw materials and cheap labour which has made modern entrepreneurship even more challenging and hence rewarding. Businesses today are introducing more and more innovative products and services, pushing back the frontiers of

technology, creating new jobs, and opening up foreign markets while creating enormous wealth and satisfaction for modern day entrepreneurs.



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

## **4.0 CONCLUSION**

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, the 20<sup>th</sup> century and the 21<sup>st</sup> century. The summary of entrepreneurship development and evolution were also made.

## **5.0 SUMMARY**

From this unit, we have discussed the following;

- Evolution of entrepreneurship from the earliest period
- Evolution of entrepreneurship from middle East
- Evolution of entrepreneurship from the 17<sup>th</sup> century
- Evolution of entrepreneurship from the 18<sup>th</sup> century
- Evolution of entrepreneurship from the 19<sup>th</sup> century
- Evolution of entrepreneurship from the 20<sup>th</sup> century
- Evolution of entrepreneurship from the 21<sup>st</sup> century

## **6.0 TUTOR-MARKED ASSIGNMENT**

- Discuss the evolution of entrepreneurship from the earliest period and middle East
- Critically discuss the evolution of entrepreneurship from the 17<sup>th</sup> century, 18<sup>th</sup> century, 19<sup>th</sup> century, 20<sup>th</sup> century, and 21<sup>st</sup> century.

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## **UNIT 3**

### **CLASSIFICATION OF ENTREPRENEURSHIP**

#### **CONTENTS**

1.0 Introduction

2.0 Objectives

3.0 Main Content

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

4.0 Conclusion

5.0 Summary

6.0 Tutor-marked Assignment

7.0 Reference/Further Reading

#### **1.0 INTRODUCTION**

There are a number of ways through which Entrepreneurs can be classified. 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.

## **2.0 OBJECTIVES**

In this unit, we shall examine the following

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

## **3.0 CLASSIFICATION OF ENTREPRENEURS**

### **3.1 Clarence Danhof's Classification**

Danhof (1949), on the basis of his study of changes in American agriculture, classified entrepreneurs in this manner: that at the initial stage of economic development, entrepreneurs have less initiative and drive and as economic development proceeds, they become more innovative and enthusiastic. Based on this, he classified entrepreneurs into four categories namely:

1. **Innovative:** An 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 of new ideas, new technology, new products, recreation of an existing product, new markets and creating new organizations. Innovative entrepreneurs are very 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 adapt will lead to loss or collapse of their enterprise.

4. **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.

### **3.2 Arthur H. Cole's 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.

### **3.3 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 start enterprises.

### **3.4 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 higher level of technical progress.

### **3.5 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 a 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 operations.

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 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.

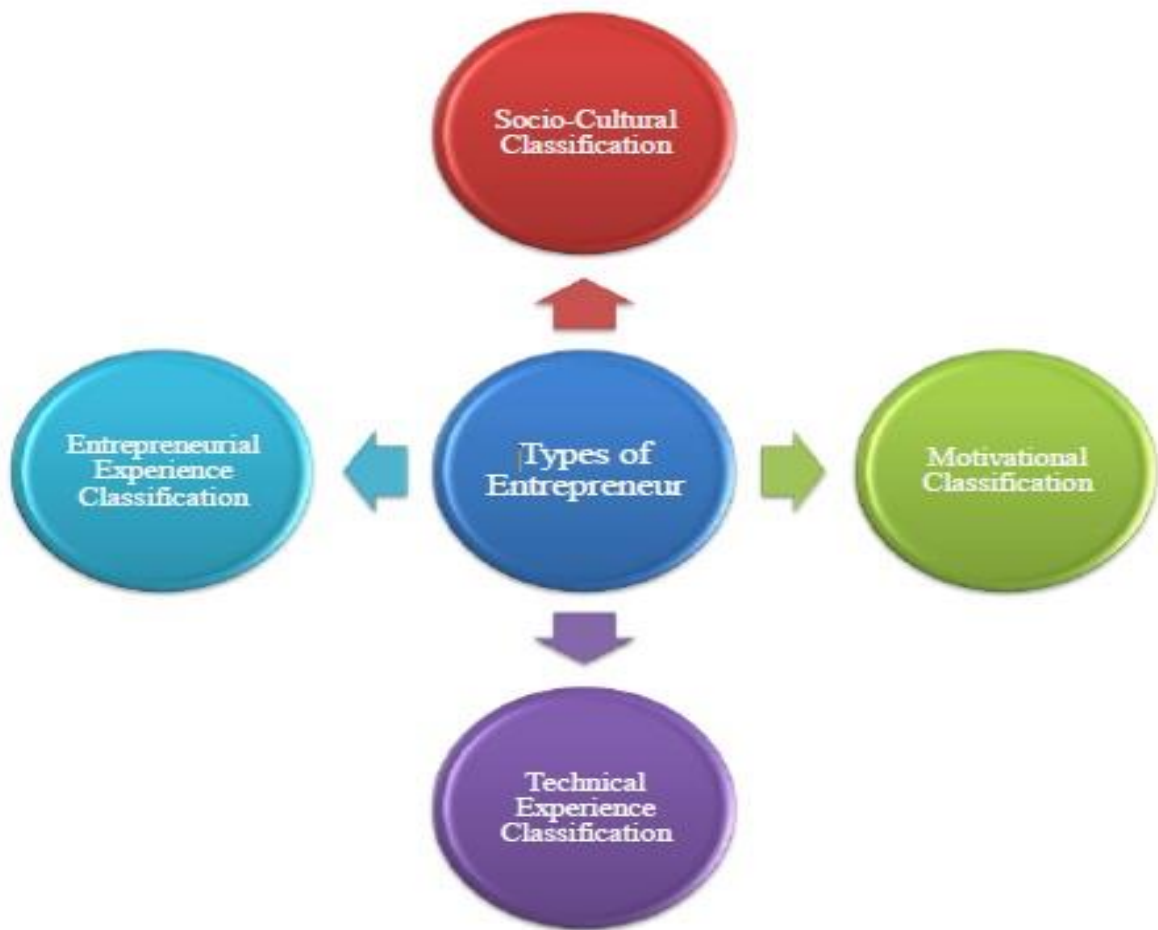
5. **Buyers** (entrepreneurs): These entrepreneurs explore opportunities to purchase the existing units which may be in trouble or are in running condition. If the units they purchase are sick they turn

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 run 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). They 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)

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

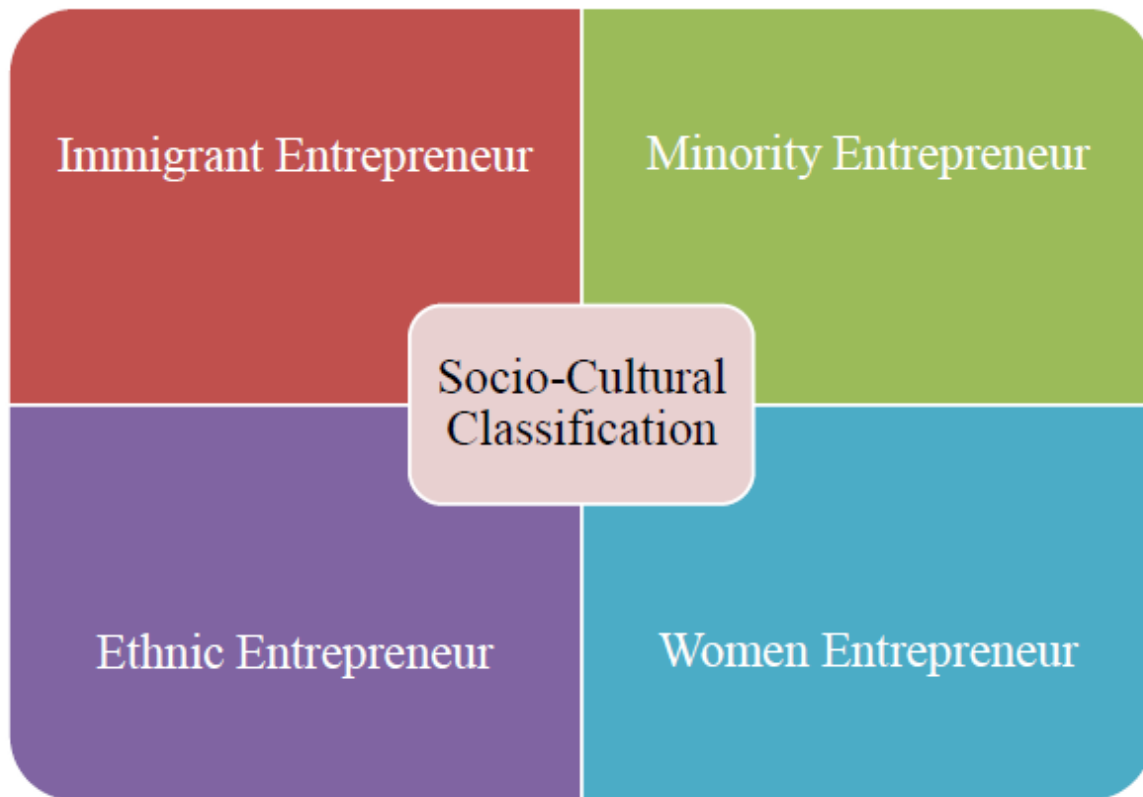
**Immigrant Entrepreneur** is an individual who has a recent arrival in a country and starts a business as a means of his survival in the country.

**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 do not belong to the majority population e.g. any entrepreneur of Indian origin in US would fall into this category.

### **Women Entrepreneurs**



Source: Pahuja, (2015)

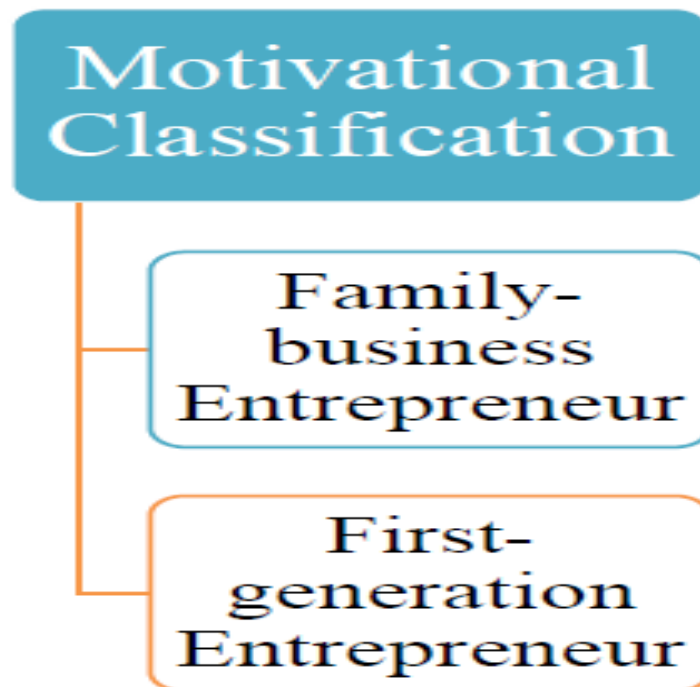
**3.7 Socio Cultural Classification:** On the basis of motivation to start a new venture, entrepreneurs can be put into four categories:

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

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

**Discontented entrepreneurs** are the ones who are unhappy with the organization they worked with and decide to start a new venture for themselves.

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

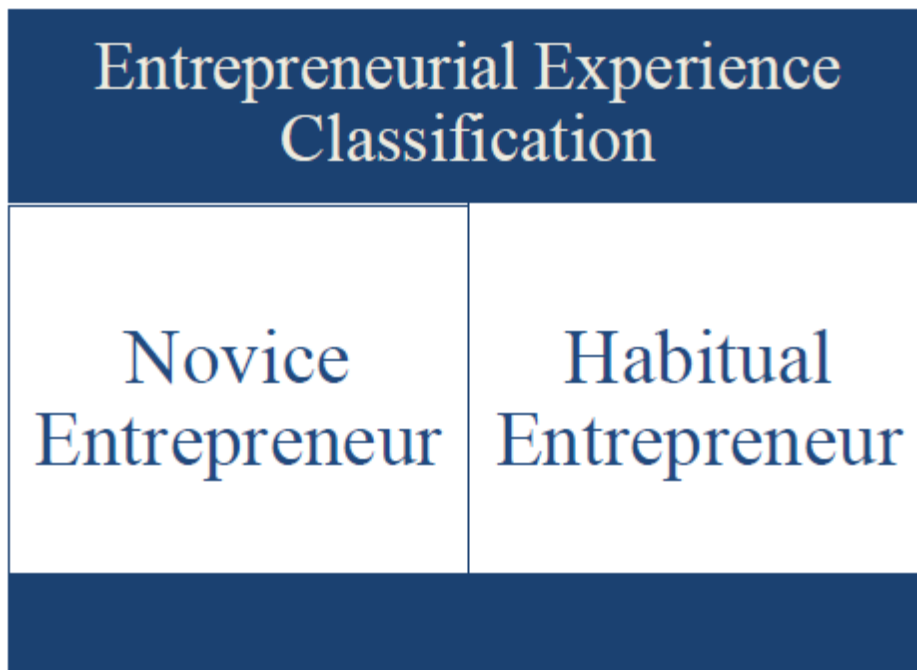


Source: Pahuja, (2015)

**3.8 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 do not have any business ownership experience in the 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.



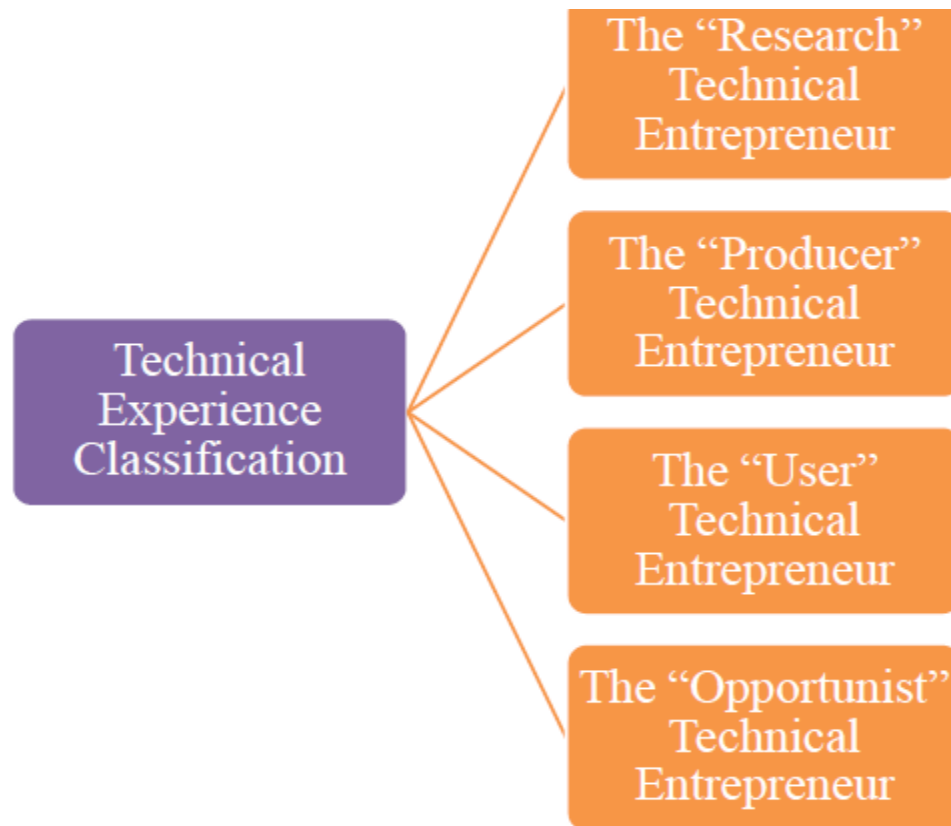
Source: Pahuja, (2015)

**3.9 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 previous experience of technological research, prior to starting their own technical ventures.

**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)

#### **4.0 CONCLUSION**

We have been able to examine the classification of entrepreneur from various authors and scholars. We have discussed the Clarence Danhof’s classification which had four classifications of an entrepreneur, Arthur H. Cole’s classification, the new classifications, motivational classification

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

## **5.0SUMMARY**

We have been able to discuss extensively the following;

- Clarence Danhof 's Classification
- Arthur H. Cole's 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

## **6.0TUTOR-MARKED ASSIGNMENT**

1. Briefly explain the Clarence Danhof's classification
2. Critically discuss the Arthur H. Cole's classification
3. Discuss the socio-cultural classification with examples to buttress the discussion
4. Evaluate the entrepreneurial experience classification and make deductions from it.

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# **MODULE 2**

## **UNIT 1**

### **ECONOMIC SCHOOL OF ENTREPRENEURSHIP**

#### **CONTENTS**

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Classical Theory

3.2 Neo-Classical Theory

3.3 Austrian Process Market

4.0 Conclusions

5.0 Summary

6.0 Tutor-marked Assignment

7.0 Reference/Further Reading

#### **1.0 INTRODUCTION**

Theories are framework which serves as a guide to a particular subject matter. Various theories of entrepreneurship has emerged which has led to the development of the entrepreneurship field. 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.

## **2.0 OBJECTIVES**

By the end this unit, you shall be able to understand the following

- Who an entrepreneur is from the economic school of entrepreneurship
- 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

### **3.1. ECONOMIC THEORY OF ENTREPRENEURSHIP**

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.

#### **3.1.1 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 see business ventures in terms of an innovator purchasing several factors of a product at 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

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

### **3.1 Classical Theory**

The classical theory describes the virtues of free trade and 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 describes the role of the entrepreneur in the context of production and distribution of goods in a competitive marketplace (Say, 1803). Classical theorists articulated three factors of production: land; capital; and labour. There have been various objections to the classical

theory. One major criticism is that this theory fails to explain the dynamic upheaval generated by entrepreneurs of the industrial age (Murphy, Liao & Welsch, 2006).

### **3.2 Neo-classical Theory**

The neo-classical model emerged from the criticisms of the classical model and indicated that economic phenomena could be restricted to instances of pure exchange, reflect an optimal ratio, and transaction 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.

### **3.3 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.

#### **4.0 Conclusion**

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 of 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.

#### **5.0 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

#### **6.0 Tutor-Marked Assignment**

- i. Critically discuss economic factors that can lead to the end of entrepreneurial pursuit.
- ii. Trace the historical background of the economic school of entrepreneurship

- i. what were the major themes of each school of thought from the economic school of entrepreneurship
- ii. What are the assumptions of the economic school of entrepreneurship?

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## **UNIT 2      PSYCHOLOGICAL SCHOOL OF ENTREPRENEURSHIP**

### **CONTENTS**

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Personality Traits

3.2 Need for Achievement

3.3 Locus of Control

3.4 Psychodynamic Model

3.5 Risk Taking Propensity

4.0 Conclusions

5.0 Summary

6.0 Tutor-marked Assignment

7.0 Reference/Further Reading

### **1.0 INTRODUCTION**

In the previous unit, we were able to discuss the economic theory of entrepreneurship. 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 either be positively or negatively.

## **2.0 OBJECTIVES**

In the unit, we shall discuss;

- 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)

## **3.0 Main Content**

### **3.1 Psychological theories of Entrepreneurship**

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.

### **3.1 Personality Trait**

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, enthusiasm, optimism, flexibility, open mindedness, and versatility amongst others.

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

The need for achievement theory was propounded by McClelland (1961). The theory explains 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 cultures
- iv. It is limited only to business people while other people also show that behavior.

### **3.3 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.



### **3.4 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 backgrounds do not show innovative rebelliousness. Some tend to be criminals and/or drug addicts or alcoholics.

### **3.5 Risk Taking**

This theory contends with one’s willingness to accept risk. People who are more likely to accept risk and take chances are more likely to be 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 successful 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.

## **4.0 Conclusion**

We were able to discuss the psychological theories of entrepreneurship. 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 criticisms and observations.

## **5.0 Summary**

From this unit, we have discussed the following;

- V. overview of the psychological theory
- VI. personality trait
- VII. need for achievement(Observation/Criticism)
- VIII. locus of control(observation/criticism)
- IX. psychodynamic model(observation/criticism)
- X. risk taking propensity(observation/criticism)

## **6.0 Tutor-Marked Assignment**

Discuss the observations and criticisms of the need for achievement theory

Critically discuss locus of control as it applies to psychological theory of entrepreneurship

Examine and discuss the psychodynamic model

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## **UNIT 3      SOCIOLOGY THEORY OF ENTREPRENEURSHIP**

### **CONTENTS**

- Introduction
- Objectives
- Main Content
  - .1 Sociological theory of entrepreneurship
  - .2 The social marginality model
  - .3 Ethnicity
  - .4 Inter-Generational Inheritance of Enterprise Culture
  - .5 Critique of the sociological theory of entrepreneurship
- Conclusions
- Summary
- Tutor-marked Assignment
- Reference/Further Reading

### **1.0 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.

### **2.0 OBJECTIVES**

In this unit, we shall 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

### **3.0 Main Content**

#### **3.1 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.

- 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 entrepreneurs. The experiences of people influence their thoughts and actions 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.
- iv. 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.

### **3.1 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 influences the behavior of individuals in a society
- The entrepreneur is a role performer according to the role expectations by the society.

### **3.2 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 and 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.

### **3.2 Ethnicity**

The 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 over 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.

### **3.3 Inter-Generational Inheritance of Enterprise Culture**

This theory asserts that entrepreneurial practice is largely inherited. Consequently, offspring 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.

### **3.4 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.

### **4.0 Conclusion**

The sociological theory of entrepreneurship looks at the social environment as it influences the entrepreneur. The sociological theory of entrepreneurship also embraces social culture as a driving force towards 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. The four social contexts as it relates to entrepreneurial opportunity were social networks, life-course stage, ethnic identification and population ecology.

### **5.0 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

## 6.0 Tutor-Marked Assignment

- Discuss the sociological theory of entrepreneurship
- Identify and explain the social context
- Discuss briefly the social marginality model and ethnicity
- Identify and discuss the critique of the sociological theory

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## **UNIT 4      INNOVATION THEORY OF ENTREPRENEURSHIP**

### **CONTENTS**

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Overview of innovation theory

3.2 Function of innovation

3.3 Criticism of innovation theory

3.4 Observations from the innovation theory

4.0 Conclusions

5.0 Summary

6.0 Tutor-marked Assignment

7.0 Reference/Further Reading

### **1.0 Introduction**

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.

### **2.0 Objectives**

At the end of this unit, the student will understand the following;

- An overview of innovation theory
- Functions of innovation theory

- Criticism of the innovation theory
- Observations from the innovation theory

### **3.0 Main Content**

#### **3.1 Innovation theory**

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.

Schumpeter introduced the concept of innovation as key factor in entrepreneurship in addition to assuming risks and organising 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.

#### **3.2 Functions of Innovation**

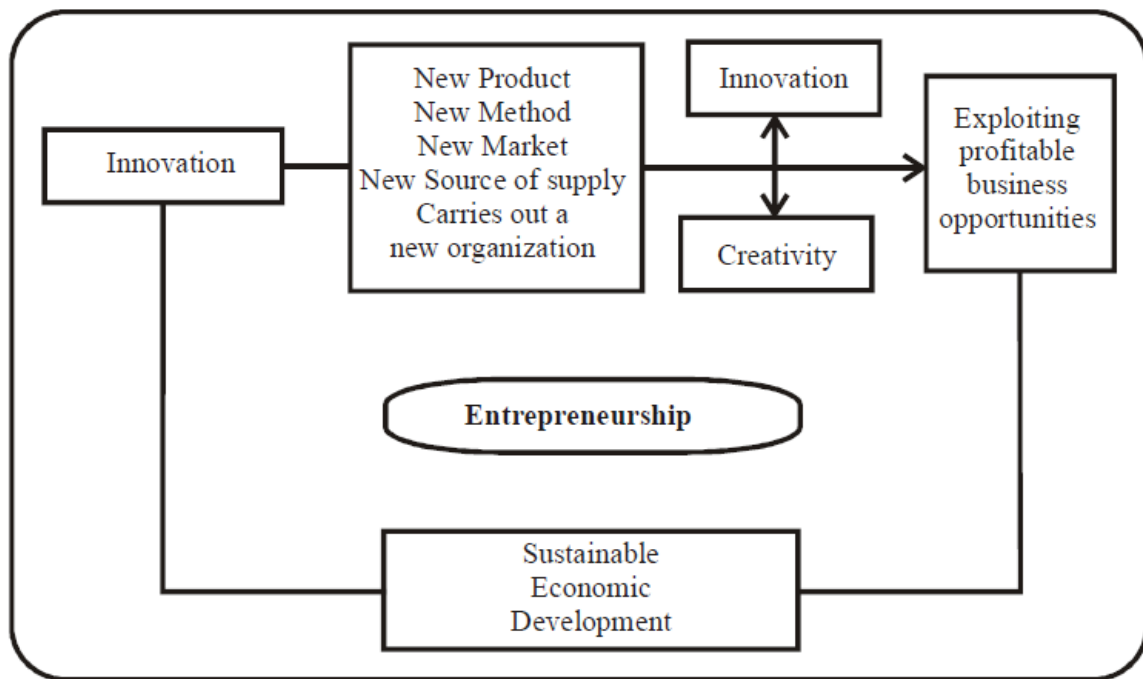
The concept of innovation and its corollary development embraces five functions:

- 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.



### **3.3 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 does not only need 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.

### **3.4 Observations from the Innovation Theory**

The theory supports the “enterprising spirit” 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.

### **4.0 Conclusion**

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.

### **5.0 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

## 6.0 Tutor-Marked Assignment

- Discuss the innovation theory
- What are the functions of the innovation theory
- Mention and explain three criticism of the innovation
- Are the observations from the innovation theory correct? Briefly discuss

## 7.0 References

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## UNIT 5 OTHER THEORIES OF ENTREPRENEURSHIP

## CONTENTS

### 1.0 Introduction

### 2.0 Objectives

### 3.0 Main Content

#### 3.1 Max Weber theory entrepreneurial growth

#### 3.2 Exposure Theory

#### 3.3 Ronald Burt's Theory of Entrepreneurship

#### 3.4 Opportunity-Based Entrepreneurship Theory

#### 3.5 Resource- Based Entrepreneurship Theories

#### 3.6 Risk Bearing Theory of Knight

#### 3.7 Hagen's Theory of Entrepreneurship

### 4.0 Conclusions

### 5.0 Summary

### 6.0 Tutor-marked Assignment

### 7.0 Reference/Further Reading

## **1.0 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.

## **2.0 Objectives**

At the end of this unit, students will be able to understand other theories of entrepreneurship which includes;

- 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

### **3.0 Other theories of Entrepreneurship**

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

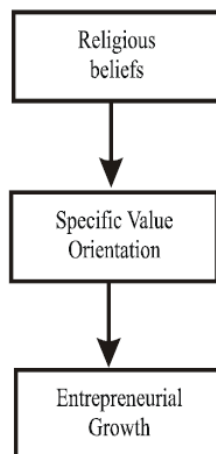
Max Weber theory emphasizes the impact of religion on entrepreneurial development. According to the theory, some religions have basic beliefs to earn and acquire money and some have less of it which he calls 'spirit of capitalism' and 'adventurous spirit'. The spirit of capitalism is generated when mental 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. 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.

### **3.2 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;



### **3.3 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 "tertiusgaudens". 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.

### **3.4 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.

### **3.5 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.

#### **A. 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.

#### **B. 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.

### C. 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.

### 3.6 Risk Bearing Theory of Knight

A major element of entrepreneurship is risk bearing. Prof. Knight and John Stuart 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 alternative outcomes cannot be determined either by a priori reasoning or by statistical inference.

### 3.7 Hayek'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”

### **3.8 Hagen's Theory of Entrepreneurship**

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;

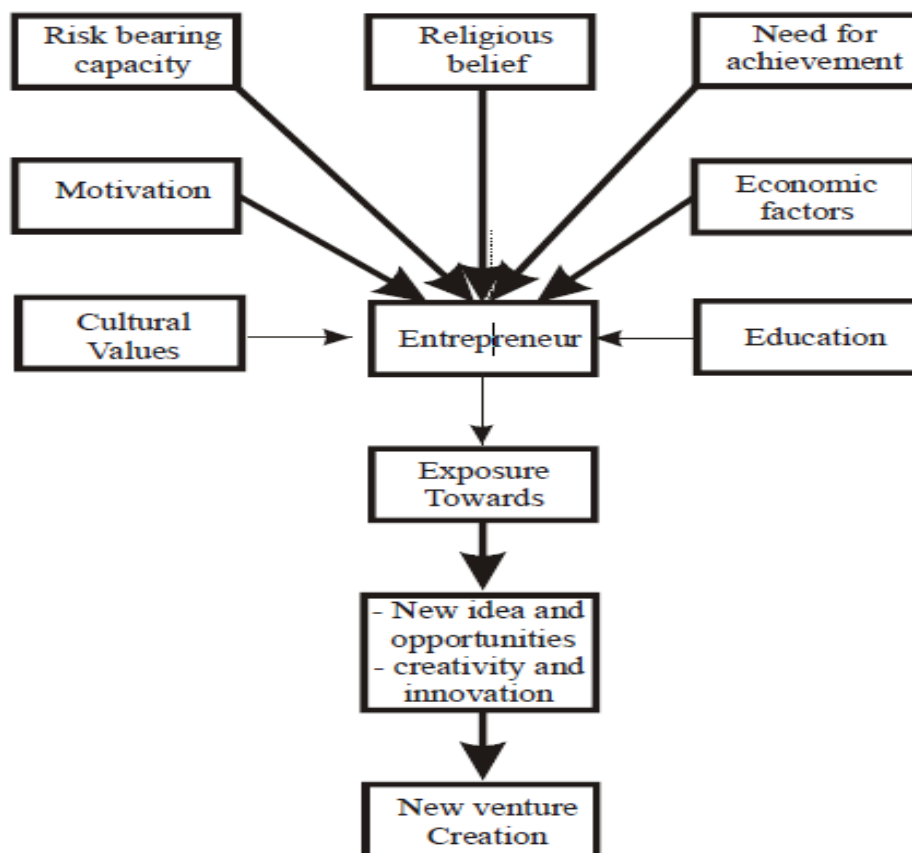
**(a)Retreatist:** Entrepreneur who continues to work in society but remains indifferent to his work or status.

**(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;



## **4.0 Conclusion**

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.

## **5.0 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

## **6.0 Tutor-Marked Assignment**

- With the aid of a diagram, discuss the Max Weber theory of entrepreneurial growth
- What are the majors of the Hagen's theory of entrepreneurship
- Critically discuss the resource based entrepreneurship theory

- Examine and analyse the risk bearing theory of Knight

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## **MODULE THREE**

### **UNIT 1 CONTRIBUTION OF THE ECONOMIC SCHOOL TO ENTREPERNEUR DEVELOPMENT**

#### **CONTENTS**

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Early/Classical contributors

3.2 Austrian contributors

3.3 Radical contributor

3.4 Summary and key terms of contributors

4.0 Conclusions

5.0 Summary

6.0 Tutor-marked Assignment

7.0 Reference/Further Reading

## **1.0 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.

## **2.0 OBJECTIVES**

At the end of this unit, the student should be able to;

- 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

## **3.0 MAIN CONTENT**

### **3.1 Contributors to the economic theory of entrepreneurship**

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 theorist 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

### **3.1.0 Classical School of Thought**

#### **3.1.1 Richard Cantillion**

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

#### **3.1.2 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.

### **3.1.3 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.

### **3.1.4 John Stuart Mill**

**John Stuart Mill** 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.

### **3.1.5 Frederic 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.

### **3.1.6 Alfred Marshall 1881**

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

### **3.1.7 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.

### **3.1.8 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

## **3.1 Austrian School of Thought**

### **3.2.1 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 depends on the foresight and judgment of the entrepreneur.

### **3.2.2 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.

### **3.2.3 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.

## **3.3: 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	Judgment, risky innovation, reward

			Salaries	
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 ill specified problems, structurally uncertain and complex situations	Profit seeking, solving problems, uncertain, complex situations

Source: Cherukara & Manalel (2011)

#### 4.0 Conclusion

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.

## **5.0 Conclusion**

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.

## **6.0 Summary**

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

## **6.0Tutor-Marked Assignment**

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

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## **UNIT 2      CONTRIBUTION OF THE PSYCHOLOGICAL SCHOOL TO ENTREPERNEURSHIP DEVELOPMENT**

### **CONTENTS**

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Need for Achievement

3.2 Social Learning

3.3 Psychodynamic Model

3.4 Summary and key terms of contributors

4.0 Conclusions

5.0 Summary

6.0 Tutor-marked Assignment

7.0 Reference/Further Reading

### **1.0 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.

### **2.0: Objectives**

In this unit, students shall know the following;

- 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

### **3.0 Contributors to psychological school of entrepreneurship**

#### **3.1 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. 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.

##### **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.

### **3.2 Social Learning Theory**

#### **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.

### **3.3 Psychodynamic Model**

#### **Kets de Vries, 1977**

Kets de Vries sees entrepreneur as tormented, scared by early childhood experiences, a loner, inisolation 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 conceptualizes 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.

### 3.4 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	Internal/ external locus of control, incidental learning

			essential for incidental learning(recognition of opportunities) with spontaneous learning resulting into 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',	Learning by doing, symbols

			introduce the term, '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- entrepreneurs by their motivation for wealth creation, capital accumulation, the ability to recognize opportunities and their judgment	motivation for wealth creation, recognize opportunities judgment

Source: Cherukara & Manalel (2011)

#### 4.0 Conclusion

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.

## **5.0 Summary**

- 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

## **6.0 Tutor-Marked Assignment**

- Identify the contributors to the need for achievement theory and their contribution
- What was the contribution of Kets de Vries in the psychological theory
- Identify four other contributors to the development of psychological theory and their major contributions.

## 7.0 References

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

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**UNIT 3      CONTRIBUTORSTO THE SOCIOLOGICAL AND INNOVATION  
SCHOOL TO ENTREPERNEURSHIP DEVELOPMENT**

**CONTENTS**

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Contribution of Max Weber

3.2 Contribution of Leland Jenks

3.3 Contribution of Thomas Cochran

3.4 Contribution of Social marginality

3.5 Contribution from the innovation theory(Joseph Schumpeter)

3.6 Summary and key terms of contributors

4.0 Conclusion

5.0 Summary

6.0 Tutoed Marked Assignment

7.0 References

## **1.0 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.

## **2.0 Objectives**

In this unit, students will know the contributors of various theorists such as;

- Contribution of Max Weber
- Contribution of Leland Jenks
- Contribution of Thomas Cochran
- Contribution of Social marginality
- Contribution from the innovation theory(Joseph Schumpeter)
- Summary and key terms of contributors

## **3.0 Main Content**

3.1 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 fuelled 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.

### **3.2 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 adaption 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.

### **Contribution 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 determine 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 primary 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 " .

### **3.3 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 South 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.

### **3.4 Contributor 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.

### 3.5Contributors 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 changes  in a population of organizations in an  ecological context provided by the host  society	Evolutionary  approach,  Population ecology,  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)

#### **4.0 Conclusion**

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.

#### **5.0 Summary**

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

### **6.0 Tutor-Marked Assignment**

- Discuss the contribution of Max Weber and his impact to development of the sociological theory
- Discuss the contribution of four theorist to the sociological theory(identify the key terms, highlight of the theory)
- Discuss the contribution of Joseph Schumpeter and his impact to development of the innovation theory

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# **MODULE 4**

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

### **CONTENTS**

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Entrepreneurship development in Nigeria

3.2 Challenges of Entrepreneurship in Nigeria

3.3 Contribution of entrepreneurship to socio-economic development of Nigeria

4.0 Conclusions

5.0 Summary

6.0 Tutor-marked Assignment

7.0 Reference/Further Reading

### **1.0 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.

### **2.0 Objectives**

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

- Discuss the evolution of entrepreneurship development in Nigeria
- Understand the challenges of entrepreneurship

- Contribution of entrepreneurship to socio-economic development

### **3.0 Main Content**

#### **3.1 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.

### **3.2 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 is no assurance of safety of lives and property hence, the entrepreneurs have to arrange for their private security personnel in order to secure their 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.

### **3.3 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.

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 has made government efforts to promote entrepreneurship to below expectation; hence no significant contribution has been made.

- v. The large-scale unemployment that bedevils the economy shows that no significant improvement has been made in the area of entrepreneurship development.
- vi. The contribution of entrepreneurship to Nigeria's economic development is marginal due to the lack of access to capital.
- vii. Entrepreneurship has fostered wealth creation and created employment in Nigeria extensively.

#### **4.0 CONCLUSION**

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.

#### **5.0: SUMMARY**

From this unit, we have been able to discuss;

- The development of entrepreneurship in Nigeria
- Entrepreneurship contribution to the socio-development in Nigeria
- Challenges of entrepreneurship in Nigeria

#### **6.0 TUTOR-MARKED ASSIGNMENT**

- Briefly discuss the development of entrepreneurship in Nigeria
- Is the contribution of entrepreneurship to socio-economic development in Nigeria significant? Kindly discuss with examples or scenarios to back up your point.
- What solutions can you proffer to challenges witnessed by entrepreneurship in Nigeria?

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## **UNIT 2      ENTREPERNEURSHIP DEVELOPMENTS IN NIGERIA**

### **CONTENTS**

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Contributors to entrepreneurship development in Nigeria

4.0 Conclusions

5.0 Summary

6.0 Tutor-marked Assignment

7.0 Reference/Further Reading

### **1.0 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.

### **2.0 Objectives**

In this unit, leaners shall understand the contribution of notable entrepreneurs in Nigeria and their impact towards entrepreneurship development in Nigeria this may serve as great influence on young entrepreneurs.

### **3.0 Main Content**

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

##### **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 ChiscoTransport 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

### **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 ObatOil 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.

### **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.

### **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, Okepopo, Lagos State. 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 and neighboring African markets. He was awarded the Lifetime Achievement Award as Business Entrepreneur of Our Time from Thisday Newspapers

### **UcheUche 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.

## **4.0CONCLUSION**

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

## **5.0SUMMARY**

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

## **6.0 TUTOR-MARKED ASSIGNMENT**

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

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## **UNIT 3      SPECIALIZED INSTITUTIONS FOR ENTREPRENEURSHIP DEVELOPMENT IN NIGERIA**

### **CONTENTS**

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Nigerian Industrial Development Bank (NIDB)

3.2 Nigerian Bank for Commerce and Industry (NBCI),

3.3 National Economic Reconstruction Fund (NERFUND),

3.4 Nigerian Export-Import Bank (NEXIM)

3.5 National Directorate of Employment (NDE),

3.6 Bank of Agriculture(BOA)

4.0 Conclusions

5.0 Summary

6.0 Tutor-marked Assignment

7.0 Reference/Further Reading

### **1.0 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.

### **2.0 Objectives**

In this unit, we shall discuss the following;

- Nigerian Industrial Development Bank (NIDB)
- 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)

### **3.0 Specialized Institutions for Entrepreneurship Development InNigeria**

#### **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

#### **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-
  - (a) 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 re discountable with the Central Bank.

### **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 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

### **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: –

- Provision of export credit guarantee and export credit insurance facilities to its clients.
- Provision of credit in local currency to its clients in support of exports.
- Establishment and management of funds connected with exports.
- Maintenance of a foreign exchange revolving fund for lending to exporters who need to import foreign inputs to facilitate export production.
- Provision of domestic credit insurance where such a facility is likely to assist exports.
- 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.

### **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;

- Reactivation of public works
- Promotion of direct labour
- Promotion of self employment
- 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:

- A comprehensive feasibility report of proposed business
- The amount of loan needed
- Names and addresses of two guarantors
- 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:

- 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.
- School leavers Scheme: This scheme is designed to give youths who graduated from NDE skill acquisition programme and willing to establish their own businesses
- 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
  - Have at least guarantors
  - Deposit the motorcycle license
  - Pay a yearly interest rate of 9% and insurance premium on the motorcycle
  - Where the beneficiary fails to pay for a period of two weeks, the motor cycles will be collected from him.

### **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

#### **4.0 CONCLUSION**

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.

#### **5.0SUMMARY**

From this unit, we have discussed the following;

- Nigerian Industrial Development Bank (NIDB)
- 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)

## **6.0TUTOR-MARKED ASSIGNMENT**

- Mention and discuss any of the four specialized institutions for entrepreneurship development in Nigeria.

## **7.0 References**

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