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Nottingham University Malaysia Campus

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## LETTER FROM THE EDITORS

Welcome to the *International Journal of Entrepreneurship*. We are extremely pleased to present a journal which is rapidly becoming a primary vehicle for communication of entrepreneurship research throughout the world.

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Nelson Ndubisi  
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# **A PERSPECTIVE ON LEADERSHIP IN SMALL BUSINESSES: IS THE NEED FOR ACHIEVEMENT A MOTIVE IN PREDICTING SUCCESS?**

**Josiane Fahed-Sreih, Lebanese American University  
Sophie Morin-Delerm, Conservatoire National des Arts et Métiers-Paris**

## **ABSTRACT**

*This study contributes to the understanding of the needs, traits and skills that govern the behavior of leaders of small businesses in Lebanon. The data were collected using a questionnaire that was filled out by 155 owners or managers of small businesses in Lebanon. The results showed that the only significant independent variable pertaining to the success of owners and managers of small businesses was the commitment to attain a standard of excellence.*

*The practical implications underline that the entrepreneurial drive to success of owners and managers of small business is his/her commitment to attain standards of excellence. The originality/value of the research show that all the remaining traits (satisfaction from experiencing success being the first in accomplishing a difficult task, preferring jobs in which they can exercise individual initiatives in solving problems, and desiring frequent, and concrete feedback about their performances) were not correlated with company success.*

## **INTRODUCTION**

Leadership is a term that is often confused with management. In organizations today, there are a number of managers who plan, organize, lead and control the organization to reach the objectives set by the Board of directors or by the top executive management team. However, the term of leadership is always confusing, Are these managers' real leaders or they are just planning budgets and organizing jobs. Do they have the ability to motivate and energize their workers; do they have the ability to align constituencies in their organizations? Do they have the ability to communicate clearly their strategy and achieve goals? This study will test certain aspects of leadership and namely the commitment to achieve standards of excellence, the satisfaction from experiencing success, the satisfaction for being the first to perform a certain task and their ability to solve problems. These aspects will be tested in small organizations in Lebanon to see which of those traits can help leaders achieve company success and how this will affect company success. Leadership as a term includes the perspective of being visionary and having a long term orientation. The 'new leadership' approach takes into consideration vision and long term perspective as the major qualities that leaders should have (Bryman, 1992). It is

also named “Contemporary leadership” (Yammarino , 1996). These theories are constructed based on two fundamental approaches: transformational and charismatic leadership. Transformational leadership is of interest to researchers (Barling, Kelloway, & Loughlin, 2002; Peterson, Walumbwa, Byron, & Myrowitz, 2007; Rubin, Munz, & Bommer, 2005, Piccolo, R. and Colquitt, J. 2006, Pillai, R., & Williams, E., 2004). The interest in Charismatic leadership is growing to some researchers ( Brown & Treviño, 2006; Den Hartog et al., 2004; Sosik, Potosky, & Jung, 2002).

The business environment with its dynamism and continuous changes, and given the urge to change rapidly has lead to a certain quality of leaders more than those of managers who are really supervisors, so leaders of today need to be visionary and long term oriented. This situation is at the root of the new leadership theories (Bryman, 1992) and contemporary leadership (Yammarino , 1996). There is as well much attention and interest in the followers’ power and responsibilities and the delegation of authority (Jung & Sosik, 2002; Kark, Shamir, & Chen, 2003; Masi & Cooke, 2000).The new leadership theories represent a clear advance with respect to the theoretical models of leadership that existed before and that is referred to as transactional leadership ( Burns 1978).In transactional leadership, followers are rewarded by their leaders when they achieve the agreed upon objectives, they are monitored for better performance and leaders would correct their actions if they don’t achieve the established standards. (Bass, 1999; Bass & Steidlmeier, 1999). Given those theoretical backgrounds, it was demonstrated that leaders described as *charismatic*, *transformational*, or *visionary* have positive effects on their organizations and on their followers (Fiol, Harris, & House, 1999). In family businesses, the situation is different; there has been little study on the effect of transformational leadership on family businesses given the new leadership theories in social psychology. In family businesses the stress is on the existence of beliefs, values, and shared visions as one of the advantages of family firms as compared to nonfamily firms. (Tagiuri and Davis,1996). Family firms enjoy a strong sense of commitment to the mission that they want to pursue and a sense of belonging and identity, that is superior to other firms (Ibrahim & Ellis, 1994). So the taxonomies of organizational culture should be well examined to notice that leadership in family firms is closer to charismatic and transformational than it is to Transactional (Ansoff, 1985; Blunt, 1991; Deal & Kennedy, 1982; Handy, 1986a, 1986b; Harrison, 1972; Ogbonna & Harris, 2000; Sethia & Von Glinow, 1985). Relationships matter in family businesses especially those based on trust, communication, loyalty and belongingness (Leach, 1993, Poutziouris, 2001; Tagiuri & Davis, 1996).

This paper aims to contribute to the understanding of the needs, traits and skills that govern the behavior of leaders of small businesses in Lebanon. In the first sections, it aims to explain the nature of traits, the trait approach to leadership as well as the nature of the skills, then it intends to determine the effect of the influence of leadership on firm performance or firm success. The paper starts with an introductory section, then a literature review whereby the

theoretical framework is shown from which hypotheses are derived, then a section on the methodology and the sampling and finally a results section.

### **THE NATURE OF TRAITS AND THE NATURE OF SKILLS**

Trait is defined as a “variety of individual attributes, including aspects of personality, temperament, needs, motives, and values.” (Yukl, 2006). Personality traits represent the constant natures to behave in a certain way. Needs and motives represent a stimulus or experience. Physiological needs include such factors as hunger, thirst, while social motives include such factors as achievement, self-esteem, affiliation, power, and independence. Needs and motives persuade attention to information and events. They direct, rejuvenate, and prolong behavior. (Yukl, 2006).

Values are defined as “internalized attitudes about what is right and wrong, ethical and unethical, moral and immoral.” Values manipulate a person’s inclinations, insight of problems, and choice of actions. Values include such factors as “fairness, justice, honesty, freedom, equality, humanitarianism, loyalty, patriotism, progress, self-fulfillment, excellence, pragmatism, courtesy, politeness, and cooperation.

Traits are partly inherited, which means the temperament, the physiological needs, and partly acquired through the values and the social needs. (Yukl, 2006). The trait approach assumes that some people have traits and skills that entitle them to hunt for and achieve leadership positions (Yukl, 2006). The discussion in this paper, will focus on the traits and skills needed in efficient management, not on the traits that foresee who will be the next leader in the group.

Skills refer to the “ability to do something in an effective manner”. Skills, like traits, are both inherited and learned, (Yukl, 2006). Levels of skills range from: Very general/broadly defined = intelligence, interpersonal skills and Narrow/more specific = verbal reasoning, persuasive ability (Yukl 2006). Leadership skills include: technical skills, interpersonal skills, conceptual skills, and administrative or diagnostic skills (Moorehead and Griffin, 2008). Leadership skills will be studied intensively in the following section along with relative findings by Stodgill (1974), McClelland (1965, 1985), and Miner (1965).

### **LITERATURE REVIEW**

As previously stated, Leadership skills include: Technical skills, Interpersonal skills, Conceptual skills, and Administrative skills. A person does not become a leader by virtue of the possession of some combination of traits...the pattern of personal characteristics of the leader must bear some relevant relationship to the characteristics, activities, and goals of followers, (Stodgill, 1948, Yukl 2006,)

The leader is characterized by a strong drive for responsibility and task completion, vigor, and persistence in pursuit of goals, venturesomeness and originality in problem solving, drive to exercise initiative in social situations, self-confidence and sense of personal identity, willingness to accept consequences of decision and action, readiness to absorb interpersonal skills, willingness to tolerate frustration and delay, ability to influence other persons' behavior, and capacity to structure social interaction systems to the purpose at hand, (Stodgill, 1948)

Stodgill maintains that not all leaders are efficient in all circumstances; they may be good in some and inefficient in others. Stodgill also asserts that two leaders with varied patterns of traits could be successful in the same circumstances. (Stodgill, 1948)

The traits that would differentiate leaders from non leaders, are as follows: the adaptability to different situations, the ambitiousness, the alertness to the social environment, the achievement orientation, the level of assertiveness, the level of cooperativeness, the decisiveness, the dependability, their power motivation or their dominance, their level of energy( high activity level), their persistence, their self confidence, their tolerance of stress, and their willingness to assume responsibility.

The skills that would differentiate leaders from non-leaders are: their intelligence, their conceptual skills, their creativity, their diplomacy, their tactfulness, their fluency in speaking, their knowledge about the work, their level of organization (administrative skills), their level of persuasion and their social skills (Stodgill , 1974).

In most research, need strength was measured with a projective technique called "Thematic Apperception Test" ("TAT"). The test consists of a series of pictures of people in ambiguous situations. Anyone who takes the test is asked to make up a story about each picture and the stories reveal the person's daydreams, fantasies, and aspirations. The stories are then coded by the experimenter to obtain a measure of three underlying needs: Power, Achievement, and Affiliation. (McClelland, 1965, 1985)

The need for power is divided into two subtypes: the socialized and the personalized power orientation. (McClelland 1985. The progress in lower levels of management requires high need for achievement, the most favorable need for nontechnical managers to go up the managerial ladder is the need for power, and technical managers' evolution in a company's hierarchy depends more on technical skills and verbal glibness than on motivation. Other researches on the same topic include many studies on the relationship between managerial motivation and advancement. In large bureaucratic organizations, significant correlations were found between a manager's overall score on managerial motivation and advancement to higher levels of management.

## **THE OBJECTIVE AND THE HYPOTHESES OF THE STUDY**

The objective of the study is to test the significance of the leadership traits and skills that would lead to the success of the owners and managers of small businesses in Lebanon. Extensive

studies conducted in the United States by Collins, Moore & Unwalla, 1964; Hundal 1971; McClelland, 1965; McClelland & Winter, 1969; and Wainer & Rubin, 1969, concluded that: “Need for achievement appears to be the most important motive for predicting success for owner-managers of small businesses.”

## **Research Design and Model**

The model consists of six variables. The measurements section describes in details the methods of measurements for each variable. The variables are as follows: success of owner-manager of small businesses, satisfaction from experiencing success in accomplishing or being the first to accomplish a difficult task, attaining a standard of excellence, preferring jobs in which they can exercise individual initiatives in solving problem, desiring frequent, concrete feedback about their performance.

## **Four Hypotheses**

The study tests four hypotheses which are listed below:

- H1 Successful owners and/or managers of small businesses would be satisfied from experiencing success and/or being the first in accomplishing a difficult task.*
- H2 Successful owners and/or managers of small businesses would like to attain standards of excellence.*
- H3 Successful owners and/or managers of small businesses would prefer jobs in which they can exercise individual initiatives in solving problems.*
- H4 Successful owners and/or managers of small businesses would desire frequent, concrete feedback about their performance.*

## **Contribution and Significance**

Extensive research on managerial motivation has been conducted by McClelland and his associates in the United States of America for more than forty years. The contribution of this study is to assess whether the Lebanese organizational environment reacts in the same way as the American organizational environment. The implementation of such a research program in Lebanon particularly among small businesses’ owners and/or managers is new in nature. No other studies on the most important motives for predicting success in such a way for owner-managers of small businesses have ever been conducted in Lebanon before.

## THE QUANTITATIVE RESEARCH

### Sampling and Data Collection

The data was collected through a questionnaire survey. Questionnaires were filled out by 154 owner/managers of small businesses in Lebanon, The sample was made up of 60.4% males and 39.6% females, owners in the sample were 58.4% of total responses and managers in the sample were 41.6% of small businesses in Lebanon.

All the participants that filled out the questionnaire were informed that the study pertained to measure their leadership skills and traits and the effectiveness of their managerial motivation. Moreover, they were assured complete anonymity and were encouraged to honestly answer all the questions.

A five-point scale ranging from “1=Disagree” to “5= Agree” was used to measure the scales of success of owners-managers of small businesses. The measure was based on a self assessment by the owners-managers. The following table shows the indicators in the questionnaire that measured the success of owners-managers of small businesses:

<b>Table 1 - Indicators of Success in the Questionnaire</b>		
	<b>Indicator</b>	<b>Success Measurement</b>
<b>1</b>	How many promotions in the last two years?	The more the better
<b>2</b>	Do you find yourself successful?	Self evaluation, the best indicator

This independent variable was measured using the same five-point scale ranging from “disagree” to “agree”. As per the researches of McClelland and his associates this skill or trait is a major indicator of the need to achieve which is the main need for the success of owners-managers of small businesses.

The following table 2 shows the indicators in the questionnaire that measured it.

<b>Table 2 - Questionnaire Indicators from Satisfaction from Experiencing Success in Accomplishing or Being the First to Accomplish a Difficult Task</b>		
	<b>Indicator</b>	<b>Success Measurement</b>
<b>1</b>	Actively encourage teamwork and cooperation and help build agreement when working with others	The lower the better in terms of self-satisfaction (prefers to remain the solo solution finder)
<b>2</b>	Mentor, coach and develop others, including those who do not work directly with me	The lower the better in terms of self-satisfaction (prefers to retain knowledge)
<b>3</b>	Anticipate change and perceive trends before they become apparent to others	The higher the better
<b>4</b>	Update my skills and professional knowledge on a regular basis	The higher the better
<b>5</b>	Enjoy the success of others as though it was my own	The Lower the better

	<b>Indicator</b>	<b>Success Measurement</b>
6	Recognize the creative and innovative ideas of others	The Lower the better
7	Do you find satisfaction from being the first to accomplish a difficult task in a successful manner	The higher the better (a direct indicator)

Attaining a standard of excellence was measured using the same five-point scale ranging from “disagree” to “agree”. The researches that had been conducted in the United States by McClelland and his associates showed that owners-managers of small businesses are in constant search to attain standards of excellence on a personal level. The following table 3 shows the indicators in the questionnaire that measured it.

	<b>Indicator</b>	<b>Success Measurement</b>
1	Instill a commitment to quality and excellence	The higher the better
2	Update my skills and professional knowledge on a regular basis	

The independent variable, “prefer jobs in which they an exercise individual initiatives in solving problems” was measured using the same five-point scale ranging from “disagree” to “agree”. Being the owners and managers of small businesses, they later would prefer to remain the solo solution finders and would require that their solution be implemented even though it might not be the best. The following table 4 shows the indicators in the questionnaire that measured it.

	<b>Indicator</b>	<b>Success Measurement</b>
1	Actively encourage teamwork and cooperation and help build agreement when working with others	The lower the better
2	Support ideas or plans of action I believe in	The higher the better
3	Prefer to exercise individual initiatives in solving problems	The higher the better (direct indicator)
4	Enjoy the success of others as though it was my own	The lower the better
5	Am willing to admit to mistakes and change accordingly	The lower the better
6	Recognize the creative and innovative ideas of others	The lower the better

The independent variable “the desire of frequent, concrete feedback about the performance of managers was measured using the same five-point scale ranging from “disagree” to “agree”. Individuals with high need for achievement require constant feedback about their decision, work and successes to remain going on. The following table 5 shows the indicators in the questionnaire that measured it.

	<b>Indicator</b>	<b>Success Measurement</b>
<b>1</b>	Regularly seek and accept feedback from others about my behavior	The higher the better (direct indicator)
<b>2</b>	Am willing to admit to mistakes and change accordingly	The lower the better
<b>3</b>	Recognize the creative and innovative ideas of others	The lower the better

Linear regression was the estimation technique used in this study. Moreover SPSS (version 17.0) was the statistical tool used to run the regression and output statistical results. The conducted study was based on a sample of 154 questionnaires taken by owners-managers of small businesses in the Lebanon mainly in the regions of: Beirut, Metn, and Keserwane and from the following industries: services, entertainment/food, tourism, and manufacturing. This could be considered as a bias in the sample as not all geographical areas were tested, however, the studied areas can give a good indication as the majority of the businesses are located in the geographical regions tested.

### **Statistical Results**

The following table presents the means and standard deviations of the variables in the model.

	N	Range	Minimum	Maximum	Mean	Std Error	Std. Deviation	Variance
Age	154	37	26	63	39.82	.627	7.786	60.629
Gender	154	1	0	1	.40	.040	.491	.241
No. of Employees You Supervise	154	76	2	78	15.48	.943	11.697	136.813
Owner Or Manager	154	1	0	1	.42	.040	.494	.244
Promotions In Last Two Years	154	3	0	3	.38	.058	.724	.524
Industry Type	154	3	0	3	1.44	.075	.929	.863
Success	154	2	3	5	4.64	.044	.546	.298
Encourage Teamwork	154	4	1	5	2.01	.066	.816	.666
Commitment To Excellence	154	3	2	5	4.58	.056	.693	.480
Support Ideas	154	2	3	5	4.73	.038	.475	.226
Seek Feedback	154	1	4	5	4.88	.026	.322	.104
Coach And Develop	154	2	1	3	2.12	.041	.503	.253
Anticipate Change	154	2	3	5	4.16	.040	.491	.241



	N	Range	Minimum	Maximum	Mean	Std Error	Std. Deviation	Variance
Update Skills	154	2	3	5	4.69	.043	.530	.281
Prefer Individual Initiatives	154	1	4	5	4.77	.034	.425	.180
Enjoy success Of Others	154	2	1	3	1.97	.060	.745	.554
Admit Mistakes	154	4	1	5	2.58	.082	1.021	1.043
Sensitive To Others Needs	154	3	1	4	2.52	.045	.563	.317
Recognize Creativity Of Others	154	2	2	4	2.79	.047	.583	.339
Satisfaction From Accomplishing Difficult Tasks	154	1	4	5	4.82	.031	.381	.146
Valid N (listwise)	154							

The characteristics of the sample are shown below. 60.4 of the sample are males whereas, 39.6 are females. 58.4 of the sample are owners of small businesses in Lebanon, and 41.6 are managers.

<b>Gender</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	M	93	60.4	60.4	60.4
	F	61	39.6	39.6	100.0
	Total	154	100.0	100.0	

<b>Owner Or Manager</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	owner	90	58.4	58.4	58.4
	manager	64	41.6	41.6	100.0
	Total	154	100.0	100.0	

## Correlation Results

The following table shows the correlations between the four independent variables that were used to test the four hypotheses.

Table 9 - Correlations Between the 4 Independent Variables					
Correlations					
		Commitment To Excellence	Satisfaction From Accomplishing Difficult Tasks	Seek Feedback	Prefer Individual Initiatives
Commitment To Excellence	Pearson Correlation	1	.069	-.131	.068
	Sig. (2-tailed)		.397	.105	.405
	N	154	154	154	154
Satisfaction From Accomplishing Difficult Tasks	Pearson Correlation	.069	1	-.115	.028
	Sig. (2-tailed)	.397		.157	.732
	N	154	154	154	154
Seek Feedback	Pearson Correlation	-.131	-.115	1	-.010
	Sig. (2-tailed)	.105	.157		.903
	N	154	154	154	154
Prefer Individual Initiatives	Pearson Correlation	.068	.028	-.010	1
	Sig. (2-tailed)	.405	.732	.903	
	N	154	154	154	154

The above table shows that there is a positive correlation between the independent variables commitment to excellence and satisfaction from accomplishing a difficult task. There also exists a positive correlation between the independent variables commitment to excellence and prefer individual initiatives but there is a negative correlation between commitment to excellence and regularly seeking feedback. Add to that there is a negative correlation between the independent variables regularly seeking feedback and prefer individual initiatives.

Moreover there is a negative correlation between satisfaction from accomplishing a difficult task and regularly seeking feedback and a positive correlation a between satisfaction from accomplishing a difficult task and prefer individual initiatives.

## Regression Results

Since the dependant and the independent variables were measured with more than one questions in the questionnaire (as detailed in the measurements' section above), we chose the direct questions that pertain to every variable. As such we ran the regression on one dependent variable and four independent variables.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	3.529	1.083		3.260	.001	1.390	5.668
Seek Feedback	.185	.138	.109	1.342	.182	-.087	.457
Prefer Individual Initiatives	-.016	.103	-.013	-.156	.876	-.220	.188
Satisfaction From Accomplishing Difficult Tasks	-.082	.116	-.057	-.707	.481	-.310	.147
Commitment To Excellence	.148	.064	.187	2.308	.022	.021	.274

## INTERPRETATION OF THE RESULTS

Hypothesis 1 predicted that successful owners and or managers of small business would be satisfied from experiencing success and or being the first in accomplishing a difficult task. The regression analysis conducted in our study revealed that we can reject hypothesis 1 with a 95% confidence interval (since significance = 0.481 > 0.05). As such it is not true that all or most owners and managers of small businesses would seek satisfaction from accomplishing a difficult task.

Hypothesis 2 predicted that successful owners and managers of small businesses would like to attain a standard of excellence. Indeed the analysis of the results of our study revealed that they do with a 95% confidence interval (since significance = 0.022 < 0.05).

Hypothesis 3 predicted that successful owners and managers of small businesses would prefer jobs in which they can exercise individual initiatives in solving problems. Again the analysis of the results in our model revealed that we can reject hypothesis 2 with a 95% confidence interval (since the significance = 0.876 > 0.05). As such it is not true that all or most of the owners and managers of small business would seek or prefer jobs in which they would exercise individual initiatives.

Hypothesis 4 predicted that successful owners and manager of small businesses would desire frequent, concreted feedback about their performances. The Analysis of the results of the study revealed that such hypothesis could be rejected with a 95% confidence interval (since  $\text{significance}=0.182>0.050$ ) As such not all or most of the owners and managers in small businesses would like to receive frequent, concrete feedback about their performances.

## CONCLUSION

This study contributes to the understanding of the needs, traits and skills that govern the behavior of leaders of small business in Lebanon. The only significant independent variable pertaining to the success of owners and/or managers of small businesses was the commitment to attain a standard of excellence. All the remaining traits: satisfaction from experiencing success and or being the first in accomplishing a difficult task, preferring jobs in which they can exercise individual initiatives in solving problems, and desiring frequent, concreted feedback about their performances, that we tested were not to be found in the sample of our study.

The difference in the results of our study and the ones conducted by McClelland and his associates would be mostly cause by: the difference in culture, the attitude of people surveyed, the method of evaluation, and the sampling size.

### Limitations of the Research

Some of the drawbacks of this study would be the seriousness of the owners and managers who filled the questionnaire and this would surely create improper results. Another limitation is that the sample is relatively small and could not be reflective of the whole Lebanese market which is mostly governed by small businesses especially that the surveys were taken in Beirut, Matn and Kesrwane. Another important limitation is difference in culture between the Lebanese people and the American ones where the original studies were conducted. The most limiting implication is that the correlation between the independent variables is somehow high that is why the only one independent variable was significant.

### Policy Implications

In light of the previous literature along with the results of this study, owners and managers of small businesses should remain committed to attain a standard of excellence that would give them a competitive advantage in a market like Lebanon. But they should not focus only on this goal while forgetting about the others i.e. they should not put their subordinates under constant stress as such the whole process would lose value.

## Suggestions for Further Research

Further research could be conducted on a broader spectrum thus covering a bigger number of people from different regions from Lebanon. Moreover different evaluation method could be used. For instance in our study we used the direct questions as a measure of the variables, many other questions that relate indirectly to the variables could be used to measure the responses. We did ask such question but we did not use them, another study could be done using these indirect questions its result could be compared to ours. Studies on the need, traits and skills of small businesses leaders are essential for the Lebanese market were most of the businesses lie in this category.

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#### APPENDIX I - CHARACTERISTICS OF THE SAMPLE AND RESEARCH RESULTS

		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Industry Type</b>					
Valid	Entertainment/Food	32	20.8	20.8	20.8
	Manufacturing	37	24.0	24.0	44.8
	Service	70	45.5	45.5	90.3
	Tourism	15	9.7	9.7	100.0
	Total	154	100.0	100.0	
<b>Age</b>					
Valid	26	1	.6	.6	.6
	27	5	3.2	3.2	3.9
	28	3	1.9	1.9	5.8
	29	3	1.9	1.9	7.8
	30	1	.6	.6	8.4
	31	5	3.2	3.2	11.7
	32	7	4.5	4.5	16.2
	33	8	5.2	5.2	21.4
	34	10	6.5	6.5	27.9
	35	8	5.2	5.2	33.1
	36	11	7.1	7.1	40.3
	37	6	3.9	3.9	44.2
	38	7	4.5	4.5	48.7
	39	6	3.9	3.9	52.6
	40	6	3.9	3.9	56.5
	41	7	4.5	4.5	61.0
	42	6	3.9	3.9	64.9
	43	11	7.1	7.1	72.1

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**APPENDIX I - CHARACTERISTICS OF THE SAMPLE AND RESEARCH RESULTS**

		Frequency	Percent	Valid Percent	Cumulative Percent
44		7	4.5	4.5	76.6
45		8	5.2	5.2	81.8
46		2	1.3	1.3	83.1
47		1	.6	.6	83.8
48		3	1.9	1.9	85.7
49		2	1.3	1.3	87.0
50		1	.6	.6	87.7
51		3	1.9	1.9	89.6
52		1	.6	.6	90.3
53		1	.6	.6	90.9
54		7	4.5	4.5	95.5
55		1	.6	.6	96.1
56		3	1.9	1.9	98.1
57		1	.6	.6	98.7
60		1	.6	.6	99.4
63		1	.6	.6	100.0
Total		154	100.0	100.0	
<b>Promotions In Last Two Years</b>					
Valid	0	114	74.0	74.0	74.0
	1	26	16.9	16.9	90.9
	2	10	6.5	6.5	97.4
	3	4	2.6	2.6	100.0
Total		154	100.0	100.0	
<b>Industry Type</b>					
Valid	Entertainment /Food	32	20.8	20.8	20.8
	Manufacturing	37	24.0	24.0	44.8
	Service	70	45.5	45.5	90.3
	Tourism	15	9.7	9.7	100.0
Total		154	100.0	100.0	
<b>Success</b>					
Valid	Neither agree nor disagree	5	3.2	3.2	3.2
	Partially agree	46	29.9	29.9	33.1
	Agree	103	66.9	66.9	100.0
Total		154	100.0	100.0	



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**APPENDIX I - CHARACTERISTICS OF THE SAMPLE AND RESEARCH RESULTS**

		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Encourage Teamwork</b>					
Valid	Disagree	44	28.6	28.6	28.6
	Partially Disagree	69	44.8	44.8	73.4
	Neither agree nor disagree	37	24.0	24.0	97.4
	Partially agree	3	1.9	1.9	99.4
	Agree	1	.6	.6	100.0
	Total	154	100.0	100.0	
<b>Commitment To Excellence</b>					
Valid	Partially Disagree	4	2.6	2.6	2.6
	Neither agree nor disagree	6	3.9	3.9	6.5
	Partially agree	40	26.0	26.0	32.5
	Agree	104	67.5	67.5	100.0
	Total	154	100.0	100.0	
<b>Support Ideas</b>					
Valid	Neither agree nor disagree	2	1.3	1.3	1.3
	Partially agree	38	24.7	24.7	26.0
	Agree	114	74.0	74.0	100.0
	Total	154	100.0	100.0	
<b>Seek Feedback</b>					
Valid	Partially agree	18	11.7	11.7	11.7
	Agree	136	88.3	88.3	100.0
	Total	154	100.0	100.0	
<b>Coach And Develop</b>					
Valid	Disagree	11	7.1	7.1	7.1
	Partially Disagree	113	73.4	73.4	80.5
	Neither agree nor disagree	30	19.5	19.5	100.0
	Total	154	100.0	100.0	
<b>Anticipate Change</b>					
Valid	Neither agree nor disagree	8	5.2	5.2	5.2
	Partially agree	113	73.4	73.4	78.6
	Agree	33	21.4	21.4	100.0
	Total	154	100.0	100.0	

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**APPENDIX I - CHARACTERISTICS OF THE SAMPLE AND RESEARCH RESULTS**

		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Update Skills</b>					
Valid	Neither agree nor disagree	5	3.2	3.2	3.2
	Partially agree	38	24.7	24.7	27.9
	Agree	111	72.1	72.1	100.0
	Total	154	100.0	100.0	
<b>Prefer Individual Initiatives</b>					
Valid	Partially agree	36	23.4	23.4	23.4
	Agree	118	76.6	76.6	100.0
	Total	154	100.0	100.0	
<b>Enjoy success Of Others</b>					
Valid	Disagree	45	29.2	29.2	29.2
	Partially Disagree	69	44.8	44.8	74.0
	Neither agree nor disagree	40	26.0	26.0	100.0
	Total	154	100.0	100.0	
<b>Admit Mistakes</b>					
Valid	Disagree	21	13.6	13.6	13.6
	Partially Disagree	62	40.3	40.3	53.9
	Neither agree nor disagree	33	21.4	21.4	75.3
	Partially agree	37	24.0	24.0	99.4
	Agree	1	.6	.6	100.0
	Total	154	100.0	100.0	
<b>Sensitive To Others Needs</b>					
Valid	Disagree	2	1.3	1.3	1.3
	Partially Disagree	73	47.4	47.4	48.7
	Neither agree nor disagree	76	49.4	49.4	98.1
	Partially agree	3	1.9	1.9	100.0
	Total	154	100.0	100.0	
<b>Recognize Creativity Of Others</b>					
Valid	Partially Disagree	46	29.9	29.9	29.9
	Neither agree nor disagree	95	61.7	61.7	91.6
	Partially agree	13	8.4	8.4	100.0
	Total	154	100.0	100.0	

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**APPENDIX I - CHARACTERISTICS OF THE SAMPLE AND RESEARCH RESULTS**

		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Satisfaction From Accomplishing Difficult Tasks</b>					
Valid	Partially agree	27	17.5	17.5	17.5
	Agree	127	82.5	82.5	100.0
	Total	154	100.0	100.0	

**APPENDIX II - SPSS TABLES AND RESULTS**
**Descriptive Statistics**

		Mean	Std. Deviation	N
	Success	4.64	.546	154
	Seek .Feedback	4.88	.322	154
	Prefer. Individual. Initiatives	4.77	.425	154
	Satisfaction .From. Accomplishing. Dff. Tasks	4.82	.381	154
	Commitment To Excellence	4.58	.693	154

		Success	Seek. Feedback	Prefer. Individual Initiatives	Satisfaction from Accomplishing. Dff.Tasks	Commitment to Excellence
Pearson Correlation	Success	1.000	.091	-.003	-.057	.168
	Seek.Feedback	.091	1.000	-.010	-.115	-.131
	Prefer.Individual. Initiatives	-.003	-.010	1.000	.028	.068
	Satisfaction.From. Accomplishing.Dff Tasks	-.057	-.115	.028	1.000	.069
	Commitment.To .Excellence	.168	-.131	.068	.069	1.000
Sig. (1-tailed)	Success	.	.130	.487	.241	.019
	Seek.Feedback	.130	.	.451	.079	.052
	Prefer.Individual Initiatives	.487	.451	.	.366	.203
	Satisfaction.From. Accomplishing.Dff. Tasks	.241	.079	.366	.	.198
	Commitment.To. Excellence	.019	.052	.203	.198	.
N	Success	154	154	154	154	154
	Seek.Feedback	154	154	154	154	154
	Prefer.Individual. Initiatives	154	154	154	154	154
	Satisfaction.From. Accomplishing.Dff. Tasks	154	154	154	154	154
	Commitment.To. Excellence			154	154	154

### Descriptive Statistics

#### Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	Commitment.To.Excellence, Prefer.Individual.Initiatives, Satisfaction.From.Accomplishing.Dff.Tasks, Seek.Feedback <sup>a</sup>		Enter

a. All requested variables entered.

#### Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.211 <sup>a</sup>	.045	.019	.541	.045	1.742	4	149	.144

a. Predictors: (Constant), Commitment.To.Excellence, Prefer.Individual.Initiatives, Satisfaction.From.Accomplishing.Dff.Tasks, Seek.Feedback

b. Dependent Variable: Success

#### ANOVA<sup>b</sup>

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	2.039	4	.510	1.742	.144 <sup>a</sup>
	Residual	43.598	149	.293		
	Total	45.636	153			

a. Predictors: (Constant), Commitment.To.Excellence, Prefer.Individual.Initiatives, Satisfaction.From.Accomplishing.Dff.Tasks, Seek.Feedback

b. Dependent Variable: Success

#### Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics		
	B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF	
	(Constant)	3.529	1.083		3.260	.001	1.390	5.668					
	Seek.Feedback	.185	.138	.109	1.342	.182	-.087	.457	.091	.109	.107	.972	1.029
	Prefer.Individual.Initiatives	-.016	.103	-.013	-.156	.876	-.220	.188	-.003	-.013	-.013	.995	1.005
1	Satisfaction.From.Accomplishing.Dff.Tasks	-.082	.116	-.057	-.707	.481	-.310	.147	-.057	-.058	-.057	.983	1.017
	Commitment.To.Excellence	.148	.064	.187	2.308	.022	.021	.274	.168	.186	.185	.976	1.025

a. Dependent Variable: Success

**Coefficient Correlations<sup>a</sup>**

Model		Commitment To Excellence	Prefer. Individual Initiatives	Satisfaction. From. Accomplishing. Dff. Tasks	Seek. Feedback
Correlations	Commitment. To. Excellence	1.000	-.065	-.053	.124
	Prefer. Individual. Initiatives	-.065	1.000	-.023	-.001
	Satisfaction. From. Accomplishing. Dff. Tasks	-.053	-.023	1.000	.107
	Seek. Feedback	.124	-.001	.107	1.000
Covariances	Commitment. To. Excellence	.004	.000	.000	.001
	Prefer. Individual. Initiatives	.000	.011	.000	-2.008E-5
	Satisfaction. From. Accomplishing. Dff. Tasks	.000	.000	.013	.002
	Seek. Feedback	.001	-2.008E-5	.002	.019

a. Dependent Variable: Success

**Collinearity Diagnostics<sup>a</sup>**

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions				
				(Constant)	Seek. Feedback	Prefer. Individual Initiatives	Satisfaction from Accomplishing Dff Tasks	Commitment. To Excellence
1	1	4.968	1.000	.00	.00	.00	.00	.00
	2	.019	16.333	.00	.02	.02	.01	.92
	3	.007	26.854	.00	.01	.73	.28	.00
	4	.006	29.461	.00	.38	.11	.40	.01
	5	.001	63.869	.99	.59	.14	.30	.06

a. Dependent Variable: Success

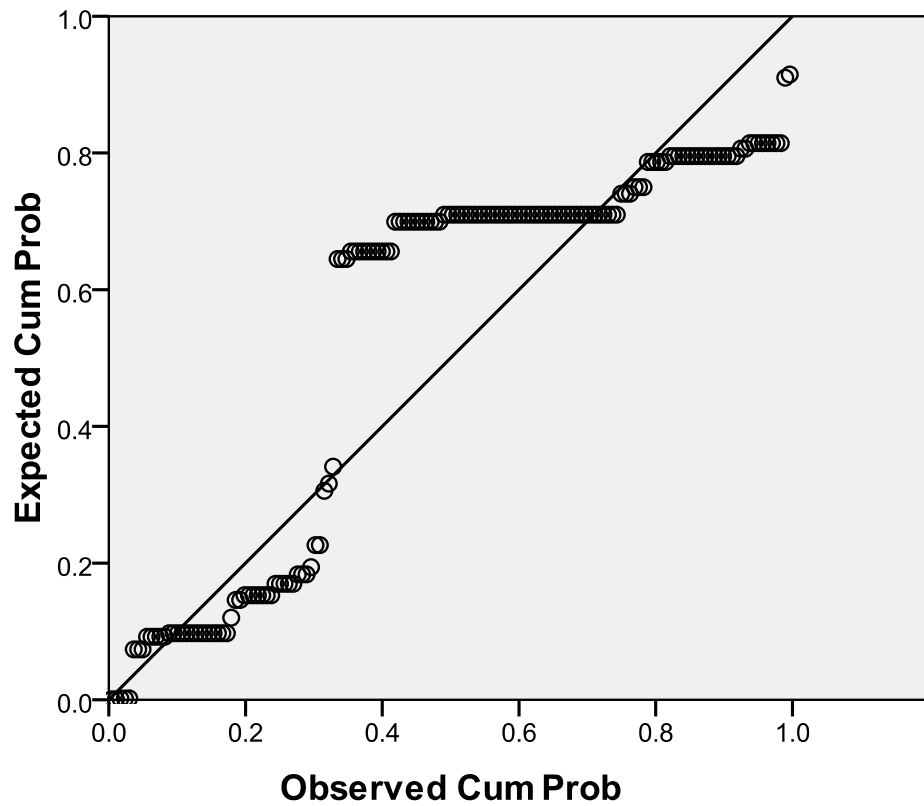
**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	4.22	4.80	4.64	.115	154
Residual	-1.701	.741	.000	.534	154
Std. Predicted Value	-3.595	1.409	.000	1.000	154
Std. Residual	-3.145	1.371	.000	.987	154

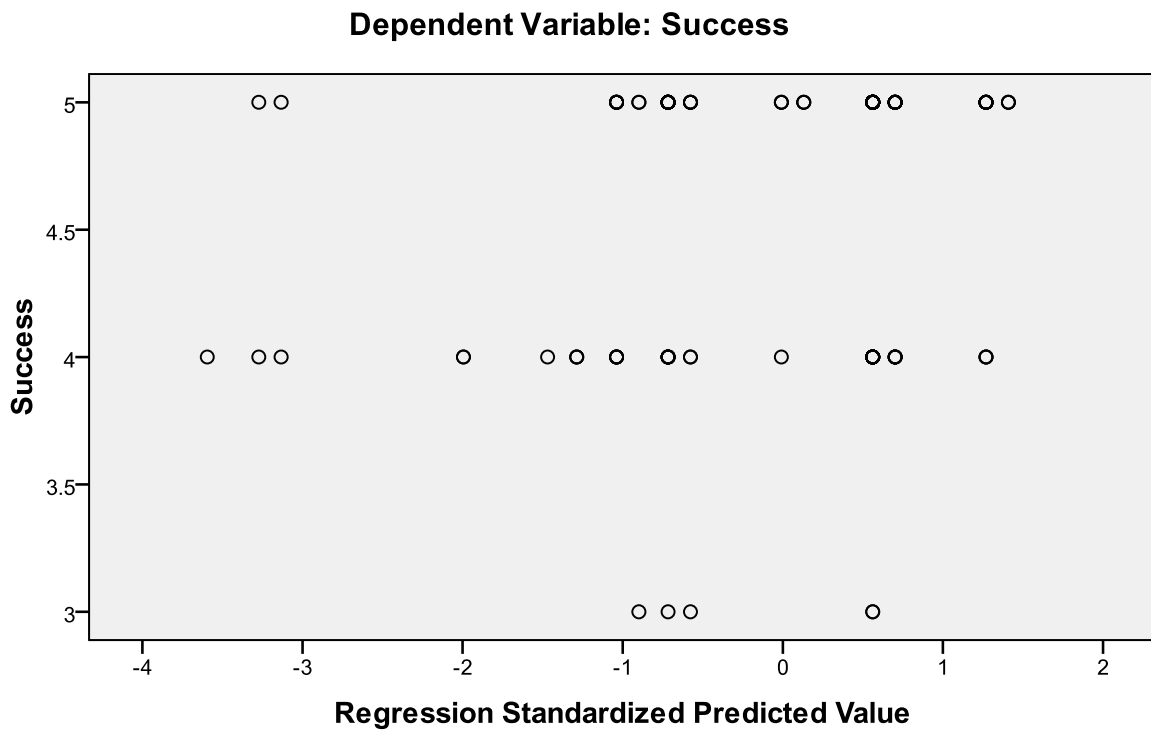
a. Dependent Variable: Success

### Normal P-P Plot of Regression Standardized Residual

Dependent Variable: Success



### Scatterplot







# LEADERSHIP IN SMALL BUSINESS IN BANGLADESH

**M. D. Kayemuddin, Islamic University Technology (IUT), Dhaka.**

## ABSTRACT

*This article focused on leadership attributable to the unique dynamics of small business owners and their increased influence on the outcome of the businesses in such small environments. A survey of 40 leaders was conducted in Bangladesh in an industrial zone. Questionnaire was developed on the different traits of leaderships and ingredients of leadership. The survey exhibits many diverse characteristics that are slowly emerging in the management of small business enterprises. The study aims at discussing some issues that has emerged from a survey of 40 randomly selected leaders of business enterprises in Bangladesh. The study reveals that the influential person can provide effective leadership; another group of sample leaders are those who are leaders by virtue of their official positions. In the underdeveloped countries, small business units are the main avenues of employment and as such these units need to be carefully managed and operated so that organizational goal is achieved. With this, view in mind, leadership of such type of business is very important.*

## INTRODUCTION

A leader is a person who direct, influence and lead others (subordinates and followers) toward the accomplishment of objectives. There are different types of leader, viz., official leaders, traditional leaders, social leaders, business leaders, etc. Leader, Manager (Official Leader) must develop his/her basic knowledge and personal skills so that he/she obtains a better understanding of the needs of his/her sub-ordinates and their abilities, attitudes and of what motivates them to perform better. The abilities and the skills that the subordinates possess and their knowledge must be directed toward achieving both personal and organizational objectives. Official leader needs to be efficient and well equipped to seek high performance from the subordinates. High performance emerges from application of certain elements which are as follows

Performance = Ability and basic knowledge X Motivation X Scope of work

Low performance may be due to lack of motivation and clear cut knowledge of the scope of work rather than to lack of ability. An official leader always wants high performance from his sub-ordinates and for achieving high performance he/she needs to know his/ her task clearly and scope of work must be clear to his/her and must have motivation i.e., willingness to work

wholeheartedly. Involved elements of work in order to properly motivate his/her subordinates into high performance.

A leader is a person who gets people to have the tasks done assigned to them by their own free will. The main qualities that a good leader must possess are: physical and mental soundness, open mindedness, intelligence, self confidence and maintains good human relations. Leaders create a vision and motivate others to achieve their vision. Leadership involves interpersonal relationships between a leader and subordinates/followers. The elements in the leadership process are the behavior and attitude of the leader toward the subordinates/followers.

Since plans are implemented through other people, it is essential to obtain the commitment and enthusiasm for the achievement and success of any plan. Leaders ask, guide or inspire others to achieve organizational goals. A small business is a business which is privately owned and operated with a small number of employees and mostly hand operated low volume of operations, buying and selling are on a lower scale having very little or no capital investment in machinery or equipments, mostly operates in a hired building. Small business is normally private limited joint stock companies or sole proprietorships. The actual definition of small business varies country to country and industry to industry. In Bangladesh, specifies a small business as having fewer than 50 employees and operates mostly manually and uses labor intensive technology. The definition of small size enterprise normally changes from time to time. Many small businesses are operated by a single family with no or a few employees.

Leadership behavior gets along with others, responsive to suggestions, criticisms, innovative, creative, flexible, resourceful, versatile and knowledgeable that able to know things through foresightedness and perception. A leader is an efficient goal setter, delegate responsibilities skillfully makes clear cut decisions, solves problems, resolve conflict, gets organized, accomplishing all of the above activities efficiently. The leader attain the goals of the organization.

An unemployed person with less or no business experience can start small business with small amount of capital and in a less costly area. It helps to create job opportunity for the poor and middle class unemployed person. Little formalities are required to observe before starting a small business. Small business can be changed easily and quickly to respond to the market demand and the small unit has independence and freedom to operate independently which is considered a reward of small business owners. Small business owners can make their own decision and reap the rewards of their own efforts.

But the small business units can not contribute adequately to the economy of Bangladesh because of its poor productivity and under utilization of capacity. Poor performance have been attributed to number of factors such as faulty planning, lack of managerial skills, inefficiency of personnel policy, mismanagement, bad working environment of innovation, lack of sales promotion and inadequate working capital. On the other hand, big business can use the specialized person and can achieve better performance through efficient planning, sound personal planning and better work environment of efficient management. Big business needs

large amount of capital and creates job opportunity for large number of people and can produce mass production having low cost of production.

Small business enjoys a tradition of infinite variety and solid achievement. It thrives everywhere. So vital is small business that few sectors of our economy could not go on without its products and services. Small business is also a civilizing influence, rising above dollars and cents to enrich the lives of men and women of the whole world.

Small business flourished in almost all ancient cultures. The Persian, Arabs, Babylonians, Egyptians, Jews, Greek, Phoenicians, and Romance excelled at small business. Their products and services, however, were often shoddy and slipshod. Consumers often were cheated and defrauded. The result was the small businesses became objects of scorn.

Although crowded with achievement, small-business history has never fired the public mind. Greek and Roman historian virtually ignored small business. In their view, ideas and military deeds were the stuff of history. Yet it was largely through small business that civilization was spread to all four corners of the then-known world.

Small business defies easy definition. Typically, we apply the term small business to so-called mom-and-pop stores such as neighborhood groceries and restaurants, and we apply the term big business to such giants as Du Pont and General Motors. But between these two extremes fall businesses that may be looked upon as big or small, depending in the yardstick and cutoff point used to measure size. There are a number of yardsticks for describing small business:

No particular definition of small industries has been attended but the area of mechanized and part-mechanized industries with the labor force even up to 300 employees is being generally covered under the umbrella of small industries focused in the paper presented by the (APO, 1986).

Asset- the total cash, inventory, land, machinery, and other resources held by a business. Equity- the total investment made by the investors, for example, in a company, investors would generally be the shareholders who buy stock. Sales revenue-is generally low in comparison to medium and large business. Number of Employees generally, 10 employees having some machinery and equipments. Without machine, number of employee may be 100 and independently owned. It would not be part of another business. Independently managed- small business owners are free to run their businesses as they desire.

Each yardstick has its own merits. But number of employees has more in its favor than of any others. It is evident that a lack of information and expertise was the main cause of small business failure. Small business is the main avenues of creating employment opportunities,.

### **LEADERSHIP IN PERSPECTIVE**

Although leadership is a debated topic, the influence of leadership on the success of a small business has not been properly studied. However, over the years, a number of theories

were developed that attempted to describe leadership and the effects it had on organizational changes (Bennis & Nanus, 1985). In fact, “In the last two decades, volumes have been written about leadership – what it is, how to recognize it, how to use it, and how to develop leadership characteristics when they are not already in evidence” (McMurray, 1987, p.1). Even though material was plentiful on leadership in general, literature was lacking in the area of leadership in the small business. The leadership role of general management in small business organization can hardly be over emphasized. Equally important is the leadership role in the organizational changes. The role of leadership in rural cooperatives focused by N. Mohanan (1973) reveals that how the cooperatives leaders brought about economic changes in their cooperatives organizations. Sustainable growth of cooperatives organizations depends on the active role of the leaders, so leadership in small business is very important factor for the success of the small business enterprises. “No one best style of leadership could be identified for all types of situation but effectiveness of style was determined by its appropriateness to the particular situation” (Sergiovanni and Starratt 1983, p. 89).

Leadership, management, and motivation are three elements that are highly interrelated and very important predictors of organizational success in any business (Hiam, 1999; Maslow, 2000; Yukl, 2002). They (Hain & Maslow) have been studied for decades to help companies derive the best and most efficient work from their employees and to produce positive results in performance and thereby profit. However, the exact nature of how leadership, management, and motivation influence human performance is still highly controversial. Leadership has been defined as “the ability of an individual to influence, motivate, and enable others to contribute more toward the accomplishment of their task leading to the achievement of the organizational goals (Yukl, 2002 p.3).

However, the concept is very complex. Is it a process, a characteristic, or a personality trait? Or is it based on the follower’s perspective? Where leadership begins in contrast to managing or motivating is unclear. Some theorists believe that leadership and management are mutually exclusive. Others contend that they are not, that a leader can be a manager and vice versa (Isaac, Zerbe, & Pitt, 2001; Yukl, 2002). Management, in itself, is often looked at as the behavior a supervisor uses to “manage” subordinates. Management styles usually relate to the degree of guidance the manager uses and what aspects of work the manager is most interested in monitoring—for example, being task-oriented or people-oriented (Baruch & Lessem, 1997). Other theories look at the different aspects of personality to assess managerial type (thinking, feeling, willing, and doing) to define an innovative, developmental, or analytical manager (Baruch & Lessem, 1995). In general, functions of management consist of planning, organizing, leading, and controlling aspects of the job environment. In addition, managers must be competent in their technical skills, maintaining human relation and emotional intelligence for managing the affairs of the business (Schermerhorn, Hunt, & Osborn, 2003).

## METHODOLOGY

In order to achieve the pre-determinate objectives of the study, a survey method was adopted for the study. In this perspective a variety of tools and techniques were used. The breakup of these activities is spelled out below:

1. *Review of available literature publication on leadership in managing small business.*

*Available published reports and relevant documents were collected and have been reviewed and necessary portions were incorporated into it.*

2. *A short survey was conducted over a few small business enterprises for generating primary data needed to design the study.*

*Survey was conducted and primary data were collected.*

3. *Questionnaires were prepared on the different characteristics on the leader. A set of questionnaire was designed for data collection.*

*Data were collected by employing one investigator.*

4. *Meetings and group discussions were held with the sample leaders and their subordinates.*

*Held meetings and group discussions with the sample leaders and subordinators to collect data and information.*

5. *Interview and informal talks with sample leaders and their subordinates.*

*Conducted interview and discussed informally with the sample leaders and subordinators to cross check the data and information so far collected.*

Taking into consideration the objectives time, resource constraints, cost factors, the following study design was planned:

*There is small industries zone and small business enterprises around Dhaka city, samples were drawn from those industrial zone and business enterprises.*

*Forty small business enterprises were selected from the industrial zone and small business enterprises randomly. Business and Industrial units selected randomly from the list of Business and Industrial units at interval of three item of the list.*

*Data were collected through personal interview. Questionnaires were prepared for this purpose. Keeping in view the purpose of the study the questionnaires were tested through pilot survey. The pilot survey was undertaken to pretest the relevancy of questionnaire and information. For the improvement of the quality of the study and thereby it helps in improving the study planning. Final questionnaire consisted of different questions, covering various characteristics of sample leaders to fulfill our purpose; Data were collected by employing one investigator and data were also collected through eye observation and informal discussion with the sample leaders and subordinates (followers).*

*Survey was conducted for three months from Nov 2009 to Jan 2010*

*Analysis of data:*

*Data were analyzed by using mathematical and statistical tools and were computerized for processing.*

## **FINDINGS**

About 40 percent sample leaders are in the age groups of 25 to 28 years about ten percent of the sample leaders are in the age of thirties and another ten percent are in the age group of forties and the rest are in the age group of more than 40. Middle and upper middle aged leaders dominate the scene. They constitute as high as 80 percent. The younger people appear to have more initiative and drive in managing the affairs of the small business. About a half of the sample leaders (50 percent) are graduates and one fourth are master degree holders and another one fourth are collegians involving themselves in small business. Most of the leaders (85 percent) have shown that they were engaged in service but their secondary occupations were agriculture.

The average monthly income of sample leaders were Tk.16659 (US\$ 237.99)\* and varied from Tk. 10,000 (US\$ 142.86) to Tk.2, 0000 (US\$ 285.71) Average net income of the sample leaders from the secondary occupations (agriculture) were Tk. 18,000 (US\$ 257.14) per year. \*(US\$ 1 = Tk. 70).

Most of the sample respondents (60 percent) belonged to ruling party (Awami League) and the rest were the supporters of BNP (the opposition party). The main reason that “why they mostly support the ruling party” is that the ruling party has all the power to give benefit to the

small business. Thus to receive those benefits from the government the leaders support the ruling party, so that they can efficiently provide the leadership in managing the small business.

As this article is on leadership, different aspects of leadership have been discussed in the following pages. Regarding the question of “who is a leader”, 50 percent of the respondents reported that a leader is a problem solver and decision maker. Only 30 percent of the respondents reported that the leaders are modifier of organization behavior. The rest of the sample leaders opined that a leader is a powerful man or a great man or a man having special qualities that makes him different from others.

The survey reveals many characteristics that are slowly emerging in the management of small business enterprises.

With regard to the question, “Which of the following type of leader can provide effective leadership?” most of the respondents (75 percent) reported that the influential person can provide effective leadership. The remaining portion of the sample leaders reported that the leaders are those who are leaders by virtue of their official positions.

With regard to the question, “Which leadership traits contribute more to become effective leaders?” the study reveals that out of 40 sample leaders 36 opined that honesty and integrity contributed more to be effective leaders and another 4 of the sample leaders expressed their opinions that the technical knowledge and intelligence contributed more to be an effective leaders. Another 20 sample leaders had expressed their opinions that they had no idea about the leadership traits.

With regard to the question, “The degree of confidence, trust and respect they had for their leaders

(Manager)”. Much above the average number of the sample leaders (32) reported that their leaders (Manager) very good to them and much less than the average number of sample respondents (8) had opined that they (Managers) were good to them.

Regarding, “Which kind of leadership style is best?” About 28 sample leaders reported that the situational leader is the best style of leadership. The 72 sample leaders indicated that the autocratic leadership style is the best for managing small business.

In response to a query, “Which roles of the leader are more effective?” a significant proportion of sample leaders (29) reported that they considered the action taken by the leaders against the complaints and grievances made by subordinates are the most effective roles of the leaders. An insignificant portion of the respondents (11) pointed out that the effective leaders keep his subordinates informed about their performance.

A higher proportion of sample leaders (38) had expressed their opinions that “An effective leader must possess manners of loving, kindness, sympathy, and compassion. The remaining portion of the leaders expressed their views that the leader must be neutral.

In reply to, “Which style of leadership is helpful for the efficient management of the small business?”. The study shows that there is less variation in their opinions that participative style of leadership is helpful for efficient management of the small business and only a fewer

sample leaders (10) pointed out that autocratic and laissez faire (free rain) style of leadership are also helpful for the efficient management of the small business.

With regard to the enquiry about, "The degree of influence the leader have over power based activities, such as, hiring firing, discipline, promotion and safety program" A significant proportion of the sample leaders (36) indicated that they had very strong influence over the power based activities and they furthermore added that the leaders were efficient facilitators and communicators. Only four respondents did not support these views

Regarding the question, "Which type of leader do you like?" A large number of sample leaders (36) had expressed their views that the leaders should present the problem to the group members in a meeting. To have their opinions and suggestions and then made the decision. However, four sample leaders had opined that the leaders should discuss with the sub-ordinates before making any decision.

In response to the query, "Which type of leadership behavior is more suitable for accomplishing organizational goals? A little more than the average number of sample leaders were of the opinion that the directive leaders are suitable for accomplishing organizational goals because they provided guidance to the subordinates, spelled out their expectations from their subordinates and also told how they should accomplish the tasks and the rest of the sample leaders (16) had reported that achievement oriented leaders are suitable for accomplishing organizational goals because they had set challenging goals and expects followers to perform their tasks at their higher level.

In reply to the query, "Whether your leader has the qualities like, integrity, competency, consistency, loyalty and openness." A little bit sample leaders had expressed their opinions that their leader had all of the qualities of integrity, competency, consistency, loyalty and openness and only 10 percent less than the average number of the respondents replied that their leaders had the quality of competency in leading the affairs of the small business..

As regard the exercise of power by the leader, 24 out of the sample leaders had remarked that their leaders exercised coercive power i.e., power of giving benefits and rewards and 16 of the sample leaders clearly specified that their leaders used their power of knowledge i.e., influence is based on expertise and special skills of the leaders.

As regarding the elements of building trust a significant portion (75 percent) of the sample leader found that they are fair to their subordinates, notified truth and had consistency in their words and works and the remaining portion of the respondent (25 percent) felt that they had focused the feeling of their subordinates.

It would be useful to compare the findings of this study with those of the future studies in the area of leadership in small enterprises. There are ample scope of imperative studies in the area of leadership and leadership in small business in particulars.



## CONCLUSION

An increased demand for unskilled labor was surely an essential component of any program to alleviate poverty. This concern for employment was soon linked to the advocacy of small-scale enterprises which were widely believed to offer more employment opportunities than larger enterprises for any given amount of investment. Some international institutions, including the World Bank tried to gear up more of their loans towards small-scale enterprises; and some developing countries, especially India, intensified measures to support and protect such enterprises.

Leaders in general expressed apprehension regarding the organizational and operational weaknesses of small enterprises. But they took a cautious view in respect of their role performance in this regard. The need for viable societies was emphasized over and again. Interference of officials and political domination by vested interest groups were the two prominent features which worked at cross purposes resulting in feeble performance of small enterprises. Education of the leaders did not help much to better the performance of the small business units. Instead, integrity and business outlook appears to have crucial role to play for successful accomplishments. It is acknowledged that leaders ignite the process of transformation in the small business units. Leaders detached from political passions and service minded is very much waiting to ensure success of small enterprises. Finally, the present study brought into sharp focus on the utter importance in nurturing leadership traits among younger generation, of course, younger generation coming up for leading the small business because they are mostly unemployed in Bangladesh and have no large amount of capital for setting up medium and larger business. This gap is in the process of bridging to make small enterprises an instrument of social change through creation of employment opportunity for large number of unemployed youths. . The leaders having personality traits and organizing ability can help the small units in their progress of operations and efficient management.

The study reveals that about 80 percent of leadership growth generates from experience and expertise knowledge, but about 20 percent of leadership growth is acquired through training and education. Every role in an organized enterprise can be made more satisfying for the subordinates and more productive for the enterprise by those who can help others fulfill their desire for such things as money, status, power or pride of achievement. Leadership is the process through which leaders encourage the subordinates by means of satisfying their personal goals. The more the leaders (Managers) can motivate them (Subordinate) and the more they reflect this in carrying out their activities, the more effective the leaders would be and the more would be the achievement of goals of the small enterprises. By utilizing the concept, practices and knowledge of leadership development in the business world, the managers (the official leaders) can gain insights into the efficient business operations and which would bring about future prospects of the small business. The academician can also acquire knowledge about the concepts and practices of leading the affairs of the small business. More and more research may be conducted

in this area because leadership is an important factor for attaining higher performance and thereby achieving organizational goals.

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# AN EXPLORATORY INVESTIGATION INTO THE ROLE AND IMPORTANCE OF NETWORKING PARTNERS OF SOUTH ASIAN ENTREPRENEURS IN THE VENTURE CREATION PROCESS

**Richard L. McCline, Southern University**  
**Subodh Bhat, San Francisco State University**

## ABSTRACT

*Previous research has investigated the behavioral tendencies of entrepreneurs (Bygrave & Hofer, 1991; Covin & Slevin, 1991; Dess & Lumpkin, 1996; Khandwalla, 1977; McCline, Bhat, & Baj, 2001; Miller & Friesen, 1983; Stevenson, Roberts, & Grousbeck, 1989). In this exploratory study, we propose adding to our understanding of the factors influencing entrepreneurship and examine more carefully the role of networks and the resource potential they represent in support of venture creation. In-person interviews and surveys, as well as a review of the relevant literature were used as part of this investigation. The research highlights the role of social networks among a selected group of entrepreneurs as time sensitive resources that support the venture creation process as the founders move from nascent and start-up entrepreneurs to growth-oriented individuals who achieve self-defined success in the marketplace.*

*Key Words: international entrepreneurship; strategy; entrepreneurial networking; venture creation; new venture resources; small business networking; entrepreneurship; empirical investigation; small business resource strategy*

*Topical Stream: International Entrepreneurship; International Issues Affecting Entrepreneurship; International Small Business*

## INTRODUCTION

In creating new ventures, few entrepreneurs are blessed with an initial abundance of resources. The entrepreneur is assumed to need resources, financial, physical, or social, for example, from others. Stevenson, Roberts and Grousbeck (1989) captured this concept well in describing entrepreneurship as the pursuit of opportunities without regard to the resources currently under control. A strong stream in the entrepreneurship literature elaborates that the prospective entrepreneur must tap into his/her network to acquire the missing resources as the

venture creation process moves forward. Dubini and Aldrich (1991) noted that entrepreneurship is “essentially a networking function.” Although the integral relationship between networking and venture creation is generally acknowledged, our review of the literature suggests that we have yet to untangle how networking may differ *across* the venture creation process. At what stage of the process does networking appear to be most actively used by aspiring and practicing entrepreneurs? How do the network partners differ in importance as entrepreneurs moved from nascence to harvest?

We propose to add to theory by using the insights gained from the study’s data to help explain how, in this research context, entrepreneurial networks do differ in kind, resources made available, and importance across the stages of the venture creation process. The study should provide practitioners and aspiring entrepreneurs with empirical evidence that some networking partners appear to be more appropriate at one stage of the venture creation process than at other stages. The expected results will benchmark which networking partners tend to be most important to successful entrepreneurship. The results should also better inform theoreticians and practitioners: (a) why the networking process must be persistent over time; (b) who in their network is important at different stages of the venture creation process; (c) what kinds of resources are typically provided by their networks; and (d) how to better fashion their networking activities as a function of the stage of venture creation.

This study also takes a staged approach to the research questions. In our first stage and as a reality check on the qualitative perspective on networking in the real world, we conducted a series of in-depth interviews with a small group of entrepreneurs that reflected the profile of the planned sample population. To assist in reaching a targeted subset of high tech entrepreneurs, the research team used its preexisting relationship with a premier networking organization, *The IndUS Entrepreneurs* (TiE; TiE is a global non-profit network of entrepreneurs and professionals, primarily from the Indian continent who are committed to the advancement of entrepreneurship). Excerpts from these first hand interviews are incorporated into the discussion of sample descriptions. As noted, the interviewees were all South Asians which directly corresponds to the nature of the membership of TiE and also reflects the dominant ethnicity of the database from which our sample respondents were selected. The approach was to minimize noise in the data by focusing on a common geography and a common industry (that is, the high tech industry and Silicon Valley). Given the high percentage of entrepreneurs in the chosen geography who are of South Asian descent, we also used this common ethnic characteristic to help guide our outreach to the sample that is described below. TiE has excellent credibility in the target community and a strong international reputation in the entrepreneurial community at large.

Secondly, we used the information from the in-person interviews to develop and then implement a survey tool that systematically examined the importance of networking activities across the venture creation process. We also informed that empirically based tool with a review of the literature on networking and entrepreneurship.

## LITERATURE REVIEW

The review of the literature included a review of relevant articles that were published in the period 1985 to present in the following management journals: Academy of Management Review; Academy of Management Journal; Academy of Management Executives; California Management Review; Entrepreneurship: Theory and Practice; Journal of Management Studies; Journal of Small Business Venturing; Journal of Small Business Management; Strategic Management Journal. The literature review was guided by the research goal to determine how resources acquired from the entrepreneur's network tended to systematically change in kind and source across the stages of the venture creation process. The literature review was later expanded to pick up earlier articles and social science articles highlighted by the search of the ABI/INFORM database. Books uncovered with a general electronic search of the business EBSCO database were also reviewed for relevance and insight. The key words used in the searches included combinations of "entrepreneurial" and "networking" and "social capital."

In this work we build off a growing consensus of entrepreneurship as having behavioral components, captured principally by the elements of innovation, proactiveness, aggressive competitiveness, obsession with growth, and calculated risk taking (Aldrich & Zimmer, 1986; Bygrave, 1989; Bygrave & Hofer, 1991; Cooper, Fotta & Woo, 1995; Covin & Slevin, 1991; Dess & Lumpkin, 1996; Gartner, 1985; Khandwalla, 1977; Kirby, 1971; McCline, Bhat, & Baj, 2001; Miller & Friesen, 1983; Stevenson, Roberts, & Grousbeck, 1989). We expect to add to theory with an empirically supported role for networking as another critical behavior characteristic of entrepreneurs.

In order to better set the stage for our central research question, we first review a selection of the literature that suggests the relationship between networking and entrepreneurship. Then we briefly comment on the unique aspect of the sample population regarding in-group behavior and its expected impact on our results. Finally, we lay out our perspective regarding stages of venture creation and the expected relationship of networking to those stages before we discuss methods and our findings.

## NETWORKING AND ENTREPRENEURSHIP

Although the importance of networking in the entrepreneurial process is generally accepted (Baron & Markman, 2000; Birley, 1985; Birley, Cromie & Myers, 1991; Larson, 1991), few empirical studies have examined this variable as time sensitive in the entrepreneurial context. Hoang and Antoncic (2003) reviewed the existing literature on networking and entrepreneurship and called for a more careful look at the process of networking as it occurs over time. Our focus here is responsive to that void in the literature. Greve and Salaff (2003) noted that entrepreneurial networks systematically varied by the phase of venture creation but their work more directly focused on the size of the network as it changes over time. It was not in their

apparent scope to study how different network members provide different resources in relation to the venture creation process. Chu (1996) reported that networking varies by stage of the venture creation process but did not elaborate on how the makeup of the network may vary specifically in terms of resources provided to the entrepreneur.

Vesper (1987) reported that the entrepreneur's network typically provide the ideas on which new businesses are founded. Birley (1985) noted that in her sample, small business owners relied on their informal contacts of family and friends to help acquire raw materials, equipment and other start-up needed resources. The author added: "An efficient network is one in which, no matter where the entrepreneur enters the network, his needs are diagnosed and he is passed round the system until he gathers the necessary information and advice..." p. 116. Similarly, Carsrud, Gaglio and Olm (1987) suggested that rarely is an entrepreneurial activity pursued without interactions within a social network, and it is these interactions that connect the identified opportunity with the resources needed by the entrepreneur to pursue that opportunity. Within a population very similar to the sample presented here, Ramachandran and Ramnarayan (1993) also noted that family and friends are the major sources of resources needed by the aspiring entrepreneur. High networking activity was found to correlate with market leadership, and high degree of innovation. This is consistent with Freel (2003) who also reported that firm size was positively associated with external linkages. Horner-Long and Schoenberg (2002) found that networking skills were higher in high tech (growth oriented) firm leaders compared to leaders of traditional brick and mortar firms. Perry-Smith and Shalley (2003) argued that the weaker ties that link network members together tend to be beneficial for creativity. Networking facilitates the creative process, allowing for the exchange of disparate information across social actors and thereby better informs the development of new products and services. Johannisson (1987) noted that networks are the most significant resource of the entrepreneurial venture. Entrepreneurs cultivate associations that lead them to those who possess resources that they need to pursue a particular venture. Dubini and Aldrich (1991) suggest: "entrepreneurship is ... inherently a networking activity.... [Entrepreneurs] pursue opportunities opened to them, or withheld, because of their network position," p. 306. Entrepreneurs have a need to "fly" and the need to be grounded (Kanai, 1998). The networking process allows grounding with others of like mindset that have experienced the process of flight in the entrepreneurial sense of having created new ventures with successful track records. Similarly, Cohen and Fields (1999) indicated that networks are "collaborative partnerships" that emerge in the pursuit of economic objectives that can be tied to innovation and competitiveness. Additionally, Jarillo (1989) noted that networking is the way entrepreneurs overcome the lack of resources needed to pursue an identified opportunity.

In summary, the existing literature is strongly suggestive of a positive relationship between entrepreneurial networking and venture creature. Missing is more specificity as to when that networking should occur and with whom that networking should be focused.



## NETWORKING AND IN-GROUP RELATIONSHIPS

We note that the sample of interviewees were all South Asian, high tech entrepreneurs, consistent with the most prominent pattern of venture creation in the local geography of this study. Our plan was to raise the visibility of the “networking effects” by holding constant the ethnic culture of the participants and the industry. The size of the networking variable’s effect is thought to be highest in a homogenous sample. Other researchers in other contexts have noted the importance of demographic similarity in promoting positive interactions between individuals (Byrne, 1971; Tsai & Ghoshal, 1998; Tsui, Egan, & O’Reilly, 1992). Thus, the common ethnicity shared by our sample respondents suggests that there is an enhanced likelihood that we can see the proposed different effects of networking across the venture creation process.

From the in-person interviews, which preceded the survey for the larger sample that responded to the online questionnaire discussed below, we were made particularly aware of the routine contact that our subject entrepreneurs had with others who shared their ethnicity. This is consistent with Ramachandran and Ramnarayan (1993) who indicated that successful South Asians entrepreneurs in their study were likely to get hard resources such as capital and technology from friends and family. Yu (2002) noted that the most successful companies in his sample (Chinese) used personal networking. Judge and Ferris (1993) also suggested that in-group favoritism (for example, sharing a common ethnicity) could be a significant driving force behind relationship development.

The final major component of the analytical framework here relies on the existing stream of literature that delineates the logical stages that a venture undergoes as it moves from start up to growth and maturity (Churchill & Lewis, 1983; Flynn & Forman, 2001; Greene & Brown, 1997; Katz & Gartner, 1988; Low & McMillan, 1988). We synthesized the various views of the stages of venture creation to suggest a simplified but empirically supported, sequential framework of the entrepreneurial venture creation process. We comment on those thoughts below.

### THEORETICAL FACTOR – STAGES OF THE VENTURE CREATION PROCESS

Although unanimity does not exist as to the exact number of stages, the names of the stages and the time dimensions of each stage, the relevant literature does presuppose that venture creation is a staged process. For example, Miller and Friesen (1984) and Charan, Hofer and Mahon (1980) suggested that the venture creation process included fairly predictable stages but did not specify how these stages related to external resource acquisition by the entrepreneur. Drucker (1985) used size as criteria for establishing his four stages of business growth. Greiner (1972) identified five stages of growth that a business venture transgresses as it goes from young to mature. Adizes (1988) added even more details in suggesting that venture creation has ten distinct stages.

Other researchers have noted that the importance of different strategic factors changes at each stage of venture growth (for example, use of innovation in the business process as noted in Bhave, 1994; dedication of resources to assist the growth orientation of the venture as in Churchill & Lewis, 1983, and Robinson & Pearce, 1986; use of outside financial investment as in Flynn & Forman, 2001; formalization of structure and use of outside counsel to aid decision making as in Hanks, Jansen, & Chandler, 1993; varying attention to internal resources as noted in McCarthy & Schoenecker, 1990; Burt, 1992; Greene & Brown, 1997; Katz & Gartner, 1988; and, Kamm & Nurick, 1993).

We used the contributions of the literature as reflected by the research highlighted above and feedback from the in-person interviews discussed below to develop a simplified model of the sequence of venture creation. The empirical work presented here is more consistent with Wilkens (1979) who noted a simplified view that identified only three phases in his framework outlining venture development over time. The simplified framework used here is also consistent with a condensed view of the classical stages suggested by Churchill and Lewis (1983). Interview feedback suggested that the Churchill and Lewis stages I and II are tough to separate, and therefore became a single stage labeled here as “start up stage.” Similarly, Churchill and Lewis’ stages III and IV became “managing- for- growth stage” and stage V became “success stage” in this research context.

In Sample I noted below, we examined the practitioner’s ability to recall the various stages of a venture’s growth from start up to success. The latter stage was allowed to be personally defined by each participant in Sample I, consistent with the subjective definition of success as exemplified in the entrepreneurial literature (Low & MacMillan, 1988; McClelland, 1976). The test sample of participants clearly narrowed their recall of entrepreneurial stages to the simplified demarcations that we used in Sample II. Our primary purpose here was not to (re)establish the specific existence of multiple stages of the venture creation process but to see how practitioners actually relate whatever stages they recall to the phenomenon of networking which is the research variable of interest. Thus, we used the feedback from entrepreneurial practitioners who agree with the existence of stages of venture creation but have minimal recall of multiple stages with fine grain distinctions between each stage.

In the following section, we summarize our empirically based conceptualization of the stages of venture creation preceded by a brief comment on the pre-start up stage of venture creation as we uncovered it in our investigation.

## **STAGES OF VENTURE CREATION**

Although our focus in this research was not specifically on the nascent entrepreneur, we incorporate the view that idea generation and opportunity recognition are logically at the front end of the entrepreneurial process and represent a pre-startup phase of venture creation. The concept of the nascent entrepreneur (Low & McMillan, 1988) captures the pre-startup notion that

cognitive activities (for example, environment scanning that focus on noting market trends and direction; idea generation that focus upon satisfying an unmet or poorly met need; pattern recognition that focuses upon developing creative and innovative responses to market opportunities; and, business plan preparation) precede actual physical activities such as securing licenses, and interviewing potential employees. We position the “start-up” stage of venture creation post these readiness activities.

In the “start-up” stage of venture creation, Singh, Hills, Hybels and Lumpkin (1999) reported that social networks are important. More specifically relevant to the inquiry here, Birley (1985) suggested that the network members that seem to be most helpful in the initial organizational stage are most likely family and friends. Therefore, it is expected that respondents to this inquiry will mention friends and family as more prominent actors in their entrepreneurial network during the start-up stage compared to other stages.

In the “managing -for -growth” stage of venture creation, entrepreneurs move beyond the start-up phase, they begin to actively manage and operate in an attempt to grow the business in terms of customers and revenue and infrastructure. In this second stage of venture creation, the entrepreneur prepares the firm for growth in customers, market share and market presence. Approximately one out of ten entrepreneurs successful moves their venture from start up to growth orientation (Duncan & Handler, 1994). The more successful entrepreneurs, those obsessed with growth, use their networks to syndicate the risk of venture creation and broaden the base of stakeholders interested in the venture’s success (Jarillo, 1989). Birley (1985) noted that the networking partners that are important to entrepreneurial ventures include network members such as banks that can provide capital needed to fuel growth. Thus, as the entrepreneurial venture moves from the startup phase, we would expect that the entrepreneurial network at this stage would move from a prominence of family and friends and more to other supportive players and various objective minded members of the value chain that includes the entrepreneurial venture.

In the “success” stage of venture creation, the process is typified by attempts to manage a sustainable venture, perhaps in conjunction with forming alliances and partnerships that promote that long-term stability. Freel (2003) reported that firm size was positively related to use of external resources by the entrepreneurial venture. These external network partners are likely sources of capital and other resources that can help to stabilize the firm. Industry exchange partners (that is, entities with which the small firm has commercial transactions), communication networks (collection of organizations and individuals with which the small firm has non-trading links) are important components to the establishment of a complete network within which the firm can operate. In this third stage of venture creation, inter-firm alliances and other strategic interactions occur with social actors that coexist in the larger marketplace of the entrepreneurial venture. For the mature firm, we would expect that network partners are still valuable in providing resources, however it is an empirical question as to what profile that network will have in this stage.

## METHODS

### Sample I

First, a sample of thirteen entrepreneurs/key players from the South Asian culture was interviewed to help provide a practitioner context to the existing literature. In combining a series of interview notes with the quantifiable results from the follow on survey, we take guidance from others in the management discipline (Miller & Friesen, 1978; Ramachandran & Ramnarayan, 1993).

Both authors conducted all interviews. The comments from these interviews were reduced to common themes about how these interviewees used networking to pursue their entrepreneurial ambitions. The interviews were semi-structured and lasted on average about ninety minutes. Typically, the conversations began with an inquiry into how the entrepreneur got started on the road to entrepreneurship. The interviews include data collection for other interests, but mainly delved into how the entrepreneur interacted with his networks (classified as friendship or business/social by the entrepreneur) as the entrepreneur engaged in the venture creation process. Interview notes were then summarized and compared by the authors.

The interviews reinforced the appropriateness of understanding the importance of networking as significant to aspiring and practicing entrepreneurs. For example, in discussing their respective early thinking about a possible entrepreneurial career, our interviewees consistently reinforced the notion of networking and making connections to other successful entrepreneurs as they “gained confidence” in their ability to become successful entrepreneurs themselves. One interviewee noted that if you are thinking about going into business, “you must know someone ... the business plan is not the key.” Another added: “Entrepreneurship is 50 percent business and 50 percent social and so one is encouraged by seeing friends and others like you who are entrepreneurs.”

Curiosity was mentioned several times as being part of the network culture... “we are encouraged to ask questions.” The desire to be independent and the passion to create “something” like others (South Asians) they know was an obvious byproduct of the informal networking practiced by the interviewees.

As the interviewees discussed their ventures, they also noted the relative ease of networking across the value chain and with other stakeholders. These sentiments related to the startup and growth phases of the venture creation process. The interviewees also noted that as they grew the venture, they thought it “easy to recruit and keep employees [acquired from their network].” The interviewees frequently mentioned that they enjoyed relatively easy access to “highly knowledgeable” network members who share a common school or ethnic background and who would be able to help them grow the venture as needed. One of our goals with sample II was to determine when such “highly knowledgeable” network partners tend to be most important to the venture creation process.

We also used the interview notes to extract basic categories of network partners that emerged from the interview notes. These categories of networking partners (for example, contacts in the entrepreneur's industry, co-workers, friends, family members, school mates, etc.), were then grouped under the major stages of venture creation as they are noted above.

In summary, the responses from sample I were used to shape the questions used with sample II. The results from the second sample are expected to add specificity of timing and related details regarding the participants' networking activities.

## **Sample II**

Using the input from in-person interviews and the reviewed literature, we developed an exploratory tool designed to operationalize the influence of networks in this research context. (The full survey instrument is available upon request to the first author.)

TiE and other business organizations were the key agents used to direct respondents to the online survey. We received 80 usable responses in the ninety-day period for which the survey instrument was available to the online participants. The criteria for including respondents included completeness of survey and appropriateness to the target audience of South Asian entrepreneurs in the high tech industry. This criteria was pre-established, consistent with our logic of minimizing the noise in the data by holding the nationality, industry, and geography constant.

### **DEMOGRAPHICS AND OTHER DESCRIPTIVES**

Table A summarizes the general profile of the venture respondents. Seventy-three percent of respondents reported on their existing businesses while twenty seven percent reported on their businesses that are not currently operational. Of the businesses that are currently operational, about seventy percent were less than 6 years old with about half less than 4 years old. The U.S. census reports that approximately sixty three percent of business start-ups are gone after 6 years, which suggest our sample respondents reflect a typical survival rate for small business owners. The median annual revenue of sample's businesses was \$750,000.00. The median number of employees of the sample's businesses was 15. Males were 92.4 percent of the sample and females were 7.6 percent. The median age of our respondents was 37 (*mean* = 40; *mode* = 35). Almost sixty percent of the sample was between 25 and 45 years of age. The U.S. census indicates that approximately two-thirds of founding entrepreneurs are between 25 and 44 years old, again suggesting our sample respondents approximate the universe of entrepreneurs on this attribute.

Parents or close relatives of 42 percent of our respondents owned their own businesses. The mean number of co-founders in our sample was 2.5, with 2 being the median and 3 the mode.

The median number of people in our respondents' Rolodex/address book/organizer was 500 and the mode 100. The median number of people who could be called by our respondents for help was 27 with the mode being 10.

The small sample size of this exploratory study did not lend itself to a more detailed analysis of the above attributes of study respondents.

Surviving Businesses			Non-Surviving Businesses	
Number of Years In Operation	Percent of Respondents	Cumulative Percentage Of Respondents	Percent of Respondents	Cumulative Percentage Of Respondents
1-2 years	18	18	17	17
3-4 years	32	50	46	63
5-6 years	20	70	17	80
7-14 years	18	88	20	100
More than 15 yrs	12	100	0	
Number of Ventures	59		21	

## RESULTS

### Role of Selected Network Members in Pre-Startup Support

All data presented in this section excludes co-founders as distinct network partners. Although the entrepreneurs in the study did not clearly distinguish between thinking about the venture and actually starting the venture, the study did include a question that captured some sense of the network's influence on the aspiring entrepreneur's thinking about venture creation. The frequency statistics in Table B highlight how the respondents spontaneously mentioned the indicated networking partner. The aspiring entrepreneur considers 'Friends' (mentioned by thirty nine percent of the sample), 'Family Members' (mentioned by eighteen percent) and 'Former Co-Workers' (mentioned by eighteen percent) as the most active network members as they *think* about actually creating a venture. At this early stage, no concrete venture exists.

Category	Percent of Respondents Mentioning
Friends	39
Family	18
Former Co-Workers	18
Mentors/Advisors	10
Attorneys	3
Clients	3
Vendors	1

For the aspiring entrepreneur, the networking importance of 'Friends' and 'Family Members' shown in the data is consistent with the existing literature that suggests almost ninety percent of pre-start up funds are from the entrepreneur herself or family and friends (see, for example, Scarborough and Zimmerer, 2005). As suggested from the feedback in sample I of this study, mentors and advisors were also mentioned as important to about 10 percent of the respondents in this early stage of venture creation. It appears to be the nature of the aspiring entrepreneur to engage in conversations about venture creation with those whom he/she trusts, a role typical of friends, family and co-workers. Arguably, at this pre-startup stage of venture creation, the entrepreneur's cognitive activity is best assisted by repeated interaction with supportive others.

### **Overview of Resources Provided by Network Partners**

To shed more light on how the various network partners contributed to the venture creation process, we asked the respondents to specify the nature of the resources they received from their network. The results noted in Table C provide empirically supported clarity to the type of resources that the respondents obtained from their network partners. The data also suggest that overall, the entrepreneur used his or her network primarily to access (a) technical support regarding the product/service being offered; (b) manpower; and (c) information that assists the entrepreneur in gaining access to market. Almost half of the respondents noted the role of their network in providing technical support information. Similarly, accessing manpower support from the network was noted by almost four of ten respondents. More basic resources such as (d) supplies and materials; and, (e) production resources appear to be under the control of the entrepreneur and were minimally acquired from his network. 'Former Co-Workers' also are relied upon by over half of the sample (57 percent) as providers of technical support and almost four out of ten respondents (38 percent) went to this network partner for manpower support. 'Contacts in the Entrepreneur's Industry' was also mentioned by almost half of the sample as sources of technical support and closely matched 'Former Co-Workers' and 'Friends' as a provider of manpower resources. Family members show up in the start up stage network but are distinctive in being mentioned primarily as a source of financial support. The perhaps unique contributions of investors and individuals from the South Asian community are discussed separately in a later section of this study.

**Table C: Frequency of Mentioned Network Members in Relationship to Resources Provided to Entrepreneur**

Network Partner/ Resource Supplied*	Fin	Mnpw	Tech	Supls	Prod	Access	Mkting	Org
Family	34%	17%	NM	NM	NM	10%	NM	17%
Financiers/VC**	31%	NA	NM	NM	NM	14%	14%	21%
Friends	29%	40%	44%	13%	10%	26%	27%	27%
Former-Co Worker	21%	38%	57%	NM	16%	35%	25%	27%
Contacts in "E" Industry	21%	40%	49%	17%	18%	29%	27%	29%
University Mates	14%	26%	25%	NM	NM	20%	10%	16%
South Asians **	31%	40%	43%	17%	18%	25%	25%	35%

\*Fin. = Financial Resources (for all factors, data indicated is reported as a percent of respondents who received this resource from indicated network partner); Mnpw =Manpower Resources; Tech. = Technical Support Resources; Supls. = Supplies & Materials Resources; Prod. = Production Resources; Access = Access to Markets; Mkting = Marketing; Org. = Organizational and Management Support; NM = not mentioned in top three resource providers by Respondents

\*\* The contribution of these networking partners which is more unique to this research context is discussed more extensively in the text of this paper.

### **Importance of Network in Providing Resources at the Start-Up Phase of the Venture Creation Process**

Consistent with the staged venture creation model discussed above (also see Figure A in Appendix), we examined the role of the entrepreneur's network in providing resources to assist in the "start-up" phase of venture creation, the "managing-for-growth" stage, and the "self-defined success" stage. For the first stage, the respondents were asked: Please rate how important people from these different groups were in providing resources or otherwise helping you to *start* the business (5 = Most Important; 1 = Least Important). The first column in Table C lists the network group identification label. Those networking groups which were mentioned by fewer than ten percent of the respondents were not included in the final analysis.

For the start up phase, the results suggest a three-tier level of importance of network members. In the most important tier were 'Contacts in the Entrepreneur's Industry', with a mean of 3.68, standard deviation (sd) of 1.31; 'Friends' with a mean of 3.54 and sd of 1.54; and 'Former Co-Workers' with a mean of 3.50 and a sd of 1.50. These three networking partners were not significantly different from each other in importance to the entrepreneur's start-up activities, but were each significantly different from the next two tiers of networking partners at the  $p = .05$  level.

The second tier of important network partners at the startup stage included 'Family Members', with a mean of 2.77 and a sd of 1.63 and 'University Mates' with a mean of 2.76 and a sd of 1.49. These two networking partners were not significantly different from each other in



importance to the entrepreneur's start-up activities, but were each significantly different from the other two tiers at the  $p = .05$  level.

The third and final tier of network partners who were significantly different from tier 1 and tier 2 network partners included 'Business Organizations'. The respondents made no meaningful distinction between organizations that were primarily of the same ethnic group as the respondents and those organizations with diverse cultural makeup. The respective means were 2.45 with a sd of 1.37 for the former type organizations and 2.51 and sd of 1.34 for the latter type of organizations. The importance of the two types of 'Business Organizations' was not significantly different from each other in providing resources to the entrepreneur's start-up activities, but were each significantly different from the other two tiers at the  $p = .05$  level.

In summary, 'Contacts in the Entrepreneur's Industry', 'Former Co-Workers' and 'Friends' appear to be equally important as primary network partners to startup stage entrepreneurs. Other networking partners appear to be significantly less important at the traditional level of measurement ( $p = .05$ ) significance.

### **Importance of Network Members in Providing Resources at the Managing-for Growth Stage of the Venture Creation Process**

Respondents were then asked to rate the importance of different categories of people in "managing and growing the business." Again the responses can be arranged in three distinct levels of importance. In Tier 1, respondents noted that 'Contacts In Entrepreneur's Industry' (mean of 3.94, sd 1.16) and 'Former Co-Workers' (mean of 3.52, sd of 1.56) were the most important providers of resources that assisted in managing the venture for growth.

The results here is consistent with existing research that has indicated that over 40 percent of venture ideas come from previous work history; thus, network members from the industry and former co-workers are both logically helpful in this respect. What may be most revealing is that friends move down in importance as the venture goes through the growth stage. The second tier of network partners rated as important in this stage was 'Friends' (mean of 2.92 and sd of 1.45) and 'University Mates' (mean of 2.71 and a sd of 1.51).

'Family Members' and 'Business Organizations' (both South Asian and others) make up the third tier of network resource providers with means of 2.25 and sd of 1.53 and means of 2.24, sd of 1.38 and 2.11, sd of 1.26 respectively.

All network means are not significantly different from means in the same tier. Means in a given tier are significantly different from means in other tiers at the  $p = .05$  level.

### **Importance of Network Members in Providing Resources at the Self-Defined Success Stage of Venture Creation**

In this third phase of the venture creation process, the participants were asked: How important were people from these different groups [same groups as identified earlier in the survey] to the *success* [clarified to mean *self-defined success*] of your business?

Notably, the entrepreneur's primary networking continues to focus on individuals with industry experience. Using the three-tier format from the above analysis, this stage of networking has 'Contacts In the Entrepreneur's Industry' (mean of 3.89, sd of 1.26) in tier one and suggest this group to be the single most important network member at this stage of venture creation. There is a marginal inclusion of 'Former Co-Workers' (mean of 3.56, sd of 1.50) in tier one, but the statistical analysis suggest that the two means barely avoid being different from each other ( $p = .08$ ). Tier two networking partners at this stage include only 'Friends' (mean of 2.92, sd of 1.54); tier three consisted of 'University Mates' (mean of 2.82, sd of 1.63) and 'Family Members' (mean of 2.60, sd of 1.59). (The data for each stage of the venture creation process is also summarized in tabular form in the Appendix.)

### **Network Partners Unique to the Sample Context**

The samples used in this study have several network partners that may be more unique to this research context. At one level, Venture Capitalists/Investors are much more likely to be available to the high tech industry than to other potential entrepreneurs. Secondly, the study made assumptions that networking would most likely be found in the South Asian entrepreneurial community based upon the work of other researchers (for example, Saxenian, 1999; Cohen & Fields, 1999). Therefore, we asked the respondents specifically about the resources acquired from both of these unique network partners. The VCs provided predictable resources primarily in the form of Finance and Organizing/Management. The results indicate that the VC network partners were a distant fifth most frequently mentioned in the startup entrepreneurial stage, falling behind 'Friends', 'Family', 'Former-Co Workers' and even Mentors which all were mentioned by over 10 percent of the sample. This observation is consistent with the well-publicized note that only about two to four percent of ventures typically involve venture capitalists. In the start-up stage, the VC network partners were about as important as 'Family Members' (mean of 2.93 on a 5.0 scale in which 5 equals "most important"), but significantly less important than 'Contacts In Entrepreneur's Industry' (mean of 3.68), 'Friends' (mean of 3.54), and 'Former Co-Workers' (mean of 3.50). Finally, in the growth stage of venture creation, the VC were about as important as 'Friends' (mean of 2.92) and 'University Mates' (mean of 2.71) but significantly less important than 'Contacts in The Entrepreneur's Industry' (mean of 3.94).

In discussing the theoretical framework for this study, it was suggested that in-group favoritism might facilitate the acquisition of resources from others in the South Asian community. The limitation of sample size only allows a partial indication of this phenomenon. When asked about their in-group networking, our respondents claimed that there was hardly any difference between their interactions with South Asians and with non-South Asians. However, when we explored who provided resources to the entrepreneurial venture, the results are quite different. The data indicated that the South Asian network was an active provider of resources of all types. The data is confounded with other responses, but the pattern of responses is clear. For all categories of resources, almost one out of four of these respondents found support from others who shared their ethnic identity. South Asians were more prominently mentioned than all other types of network members with the exception of Family (and the perhaps unique presence of VC) as provider of financial resources and equal or surpassed all other network partners as providers of manpower. This reflects the comment from Sample I regarding how relatively easy it was to get other South Asians with relevant expertise to join and assist in their venture creation.

## DISCUSSION

The primary research question of this work sought to unravel the importance of networking as the entrepreneur engages in the venture creation process. Understanding more completely the process of venture creation requires that we go beyond the individual and consider the social context in which entrepreneurs develop their efforts. The results presented here clearly show a gradual shift of the networking of the aspiring entrepreneur over the venture creation process. In the startup stage, the entrepreneur is focused upon multiple network partners including ‘Contacts in the Entrepreneur’s Industry’, ‘Friends’ and ‘Former Co-Workers.’ In the managing-for-growth stage, the entrepreneur narrows his primary networking to ‘Contacts in the Entrepreneur’s Industry’ and ‘Former Co-Workers.’ In the self-defined success stage of venture creation, the entrepreneur is even more focused and names ‘Contacts in the Entrepreneur’s Industry’ as his/her most important networking partner. Closely related to the research questions addressed here, Nohria (1992) noted that entrepreneurs will tend to seek out individuals and other ventures that have similar industry experience and can therefore share resources (physical and emotional) with the aspiring venture. We see the evidence of this in the results reported here.

Table D summarizes the suggested changes of primary network partners over the venture creation process. Table D also captures the suggestion noted above, that ‘Former Co-Workers’ are almost statistically excluded as primary network providers in this last stage of venture creation.

Notably, ‘Family Members’ are mentioned only in the start up stage as third tier networking partners and tend to mainly provide financial support to the aspiring entrepreneur. The results suggest that as the entrepreneur moves through the venture creation process, networking moves beyond the strong ties structure even more and involves the “weak ties”

linkage to those who possess informational and other resources specifically related to the industry targeted by the new venture. (Figure B, which is also included in the Appendix, updates our initial look at the social context with indications of how the importance of a particular networking partner changes over the course of the venture creation process.)

<b>Table D: Summary of Most Important Networking Partner By Stage of Venture Creation</b>			
Most Important Networking Partner	Start-Up <sup>a</sup>	Managing <sup>a</sup>	Success <sup>a,c</sup>
People in the “E” Industry <sup>b</sup>	3.68	3.94	3.89
Former Co-Workers <sup>b</sup>	3.50	3.52	
Friends <sup>b</sup>	3.54		
<i>(Means: 1 = least important, 5 = most important)</i>			
<sup>a</sup> Mean(s) in this column are significantly different from means in each of the other columns at the $p = .05$ level of significance.			
<sup>b</sup> Mean(s) in this row are significantly different from means in each of the other rows at the $p = .05$ level of significance.			
<sup>c</sup> See text discussion for explanation of this column mean.			

### Summary of Types of Resources Acquired from Network

The results suggest that we can portray the entrepreneur network as providing three groups of resources labeled for ease of reference as Group A, B and C. Group A included only two types of resources which were mentioned by over 35 per cent of the respondents. One resource, “technical support” related to the entrepreneur-targeted industry was acquired from ‘Former Co-Workers’ (the resource provider as mentioned by 57 percent of respondents); ‘Contacts in the Entrepreneur Industry’ (49 percent); and ‘Friends’ (44 percent). Also in Group 1 group was “manpower” which flowed from ‘Friends’ (mentioned by 40 percent of respondents); ‘Contacts in the Entrepreneur Industry’ (40 percent); ‘Former Co-Workers’ (38 percent).

Group B networking resources were mentioned by 25 percent to 35 percent of respondents and included: “organizing and management assistance”, which was acquired from ‘Contacts in the Entrepreneur Industry’ (29 percent); ‘Friends’ (27 percent), and ‘Former Co-Workers’ (27 percent). The other resources in this group included “assistance in gaining access to markets.” This resource was acquired from ‘Former Co-Workers’ (mentioned by 35 percent of respondents); ‘Contacts in the Entrepreneur’s Industry’ (29 percent); and ‘Friends’ (26 percent). Another resource in Group B was “finance” which flowed from: ‘Family’ (mentioned by 34 percent of respondents); and, ‘Friends’ (29 percent). The final resource in this group was “marketing resources” which flowed from ‘Friends’ (mentioned by 27 percent of respondents); ‘Contacts in the Entrepreneur’s Industry’ (27 percent); and ‘Former Co-Workers’ (25).

Group C networking resources were mentioned by less than 25 percent of respondents and included “supplies and materials” and “production assistance” which was obtained primarily from ‘Contacts in the Entrepreneur Industry’ (17 percent); and, ‘Friends’ (13 percent).

Perhaps worth noting, considering the significant level of government programs provided to support entrepreneurship, only 18 percent of respondents received resources in the form of help from various types of governmental institutions. In contrast, the private sector was active in that some 53 percent of respondents received help from private consultants.

The results presented here are consistent with Dubini and Aldrich (1991) assertion that effective entrepreneurs are more likely to systematically plan network activities. Each stage of the entrepreneurial process requires planning to acquire a different combination of resources from the entrepreneur's network. Entrepreneurs must be able to identify key persons, discerning between purely friendship networks and those social networks that bring access to missing resources necessary to start-up.

Similarly, the results are consistent with Ramachandran and Ramnarayan (1993), who also reported that friends with similar educational backgrounds were found to be a significant source of support. The entrepreneur's networking appeared to be aimed at minimizing the "uncertainty and risk associated with the kinds of businesses that the entrepreneur takes on..." p 521.

As noted earlier, a strong stream in the literature suggests that entrepreneurship is not an event but essentially a networking activity that unfolds over time. Yet little research has noted how networks change in composition over the respective timeframe of entrepreneurial activities. The data presented here suggest a view of networking that provides empirical support for what largely has been anecdotal and intuitive. Low and MacMillan (1988) pointed out that entrepreneurs are socially important not because they exist, but because they succeed in creating organizations. The authors noted that the list of potential pitfalls associated with starting a new venture "appears limitless ... understanding how and why some entrepreneurs succeed remains a major challenge for the entrepreneurship research community" (p. 142). The harsh reality is that many entrepreneurs don't survive past six years and many others only achieve modest success. Understanding the strategic role of different network partners in the venture creation process may assist the success rate of aspiring entrepreneurs.

In their work on the relative importance (that is, frequency of contact) of members of the entrepreneurial network, Smeltzer, Van Hook and Hutt (1991) listed accountants as the most frequently used contact, followed by attorneys, friend and relatives. In contrast here, the results indicate that in the startup phase of entrepreneurship, the contemplative entrepreneur uses his network friends, former co-workers and then, family members to acquire missing resources. The differences noted may be due to the nature of each sample, but we believe that a more accurate view is that the order of network partner importance does in fact change as the stage of venture creation changes.

## SUMMARY OVERVIEW: THE NETWORKING QUESTION

In the startup stage, the networking of the nascent entrepreneur appears to be responsive to the following question: *Who do you know and who knows you?* 'Friends', 'Former Co-Workers' and 'Family Members' are network partners most likely to be prominent transactional partners of the aspiring entrepreneur. 'Family Members' appear to be prominent resource providers at the front end of the entrepreneurship process when financial support is appropriately sought from those who believe in the entrepreneur as no product or service is yet visible.

As the entrepreneur moves from the startup phase of venture creation, the data suggest that the networking role is responsive to the following question: *Who do you know that knows you and something useful about the target industry?* The 'who knows me' element of this stage is captured by the manpower resources that flow from the entrepreneur network at this stage. The 'who knows something about the industry' is captured by the technical and access to market resources supplied by network partners in this stage of venture creation. In this managing-for-growth phase, the entrepreneurs becomes less dependent on his or her strong ties with more intimate network members (for example, family, friends) and gives a prominent role to her (most likely) weak ties to individuals from the target industry (e.g. workers in high tech and former co-workers).

In the third stage of venture creation, the entrepreneur network role is responsive to the following question: *Who do you know that knows something useful about the target industry?* At this stage, networking seems more about industry information extracted from as many folks as possible; networking continues, but strong ties are not the deciding factors that guide the process.

In reviewing the results presented here, a clear empirically picture emerges on what network partners are of prime importance as the entrepreneur moves from nascent through growth and toward success. The entrepreneur narrows his focus from a multiple set of primary network partners to a straightforward focus on those who are in the industry of the entrepreneurial venture. Importantly, the results reinforce the constant need for networking, but highlight the selective nature this activity may take over time.

Future research should examine the results presented here in other industries and in a more diverse population with a larger sample size that should help establish the generalizability of these findings. We suggested the trends indicated by the data, but also note the uniqueness of our sample populations, location and industry.

## AUTHORS' NOTE

Richard L. McCline is Professor and holder of the James A. Joseph Endowed Chair in Small and Minority Business Enterprise in the College of Business at Southern University, Baton Rouge, La. McCline holds a Ph.D. from Tulane University, A.B. Freeman School of Business, New Orleans, Louisiana and an MBA from the Kellogg School of Management at Northwestern University in Evanston, IL. His areas of research interests include entrepreneurship, factors affecting venture creation and development, social entrepreneurship and investigating the

practical implications of the strategic management processes of public and private organizations. [drmcline@msn.com](mailto:drmcline@msn.com)

Subodh Bhat is a Professor of Marketing in the College of Business at San Francisco State University and holds a Ph.D. from the University of Georgia. His areas of research interests include brands and branding, advertising, entrepreneurship, and high tech marketing. [sbhat@sfsu.edu](mailto:sbhat@sfsu.edu)

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## APPENDIX

<b>Supplemental Table A: Co- Founder Profile</b>	
<i>n = 80</i>	
Number of Co-founders	Percent of Respondents
1 (Sole proprietor)	25
2	24
3	30
4 – 7	21
Category of Co-founders	Percent of Respondents <sup>a</sup>
South Asians	74
High-tech industry	62
Friends	52
Former co-workers	43
Relatives	27
University mates	26
Financiers/VCs	9

<sup>a</sup> Multiple responses possible from respondents and were not mutually exclusive.

<b>Supplemental Table B: Start up Stage</b>			
<b>Importance of Network Partners in Providing Resources to Entrepreneurs</b>			
<i>n = 80</i>			
Category	Mean <sup>b</sup>	Std Dev. Deviation	Primary Resource Provided <sup>a</sup>
Tier 1 Network Partners <sup>c</sup>			
Contacts In “E” Industry	3.68	1.31	Technical (49)/Manpower (40) Access to Market (29 percent)
Friends	3.54	1.43	Technical (44) /Manpower (40)
Former Co-Workers	3.50	1.50	Technical (57 percent) /Manpower (38 percent) Access to Market (35 percent)
Tier 2 Network Partners <sup>d</sup>			
Family Members	2.77	1.63	Finance (34 percent)
University Mates	2.76	1.49	Technical (49)/Manpower (40) Access to Market (20 percent)
Tier 3 Network Partners			
Business Organizations (South Asians as Primary Members)	2.45	1.37	Not applicable
Business Organizations (Other than South Asians as Primary Members)	2.51	1.34	Not applicable

<sup>a</sup> Number in parenthesis indicates the percent mentioning; the top three providers of the noted resources are included.

<sup>b</sup> 1= Least important; 5 = Most important

<sup>c</sup> Tier 1 means are significantly different from Tier 2 and Tier 3 means at the  $p = .05$  level.

<sup>d</sup> Tier 2 means are significantly different from Tier 3 means at the  $p = .05$  level.

<b>Supplemental Table C: Managing for Growth Stage</b>			
<b>Importance of Network Partners in Providing Resources to Entrepreneurs</b>			
<i>n = 80</i>			
Category	Mean <sup>b</sup>	Std Dev.	Primary Resource Provided <sup>a</sup>
Tier 1 Network Partners <sup>c</sup>			
Contacts In "E" Industry	3.94	1.16	Technical (49)/Manpower (40) Access to Market (29 percent)
Former Co-Workers	3.52	1.56	Technical (57 percent) /Manpower (38 percent) Access to Market (35 percent)
Tier 2 Network Partners <sup>d</sup>			
Friends	2.92	1.45	Technical (44) /Manpower (40)
University Mates	2.71	1.51	Technical (49)/Manpower (40) Access to Market (20 percent)
Tier 3 Network Partners			
Family Members	2.25	1.53	Not applicable
Business Organizations (South Asians as Primary Members)	2.24	1.38	Not applicable
Business Organizations (Other than South Asians as Primary Members)	2.11	1.26	Not applicable

<sup>a</sup>Number in parenthesis indicates the percent mentioning; the top three providers of the noted resources are included.

<sup>b</sup>1= Least important; 5 = Most important

<sup>c</sup> Tier 1 means are significantly different from Tier 2 and Tier 3 means at the .05 level of significance.

<sup>d</sup> Tier 2 means are significantly different from Tier 3 means at the .05 level of significance.

<b>Supplemental Table D: Success Stage</b>			
<b>Importance of Network Partners in Providing Resources to Entrepreneurs</b>			
<i>n = 80</i>			
Category	Mean <sup>b</sup>	Std Dev.	Primary Resource Provided <sup>a</sup>
Tier 1 Network Partner <sup>c</sup>			
Contacts In "E" Industry	3.89	1.26	Technology/Manpower
Former co-workers	3.56	1.50	Technology/Manpower/
Tier 2 Network Partners <sup>d</sup>			
Friends	2.92	1.54	Technology/Manpower Access To Market (26)
Tier 3 Network Partners			
University mates	2.82	1.63	Not applicable
Family	2.60	1.59	Not applicable

<sup>a</sup>Number in parenthesis indicates the percent mentioning; the top three providers of the noted resources are included.

<sup>b</sup>1= Least important; 5 = Most important

<sup>c</sup> Tier 1 means are significantly different from Tier 2 and Tier 3 means at the .05 level of significance.

<sup>d</sup> Tier 2 means are significantly different from Tier 3 means at the .05 level of significance.

<b>Supplemental Table E: Networking Resources Provided by the Venture Capital and Affinity Group</b>	
<i>n = 8</i>	
Resources Provided by Financiers/VCs Networking Partners	Per Cent of Respondents Mentioning
Finance	31
Organizing/management	21
Access to markets	14
Marketing	14
Resources Provided by South Asians Networking Partners	Per Cent of Respondents Mentioning <sup>a</sup>
Technology	43
Manpower	40
Organizing/management	35
Finance	31
Access to markets	25
Marketing	25
Production	18
Supplies and materials	17

<sup>a</sup> Multiple responses possible from respondents and were not mutually exclusive.

<b>Supplemental Table G: Additional Network Data of Respondents</b>	
<i>n = 80</i>	
Number of contacts	Percent of respondents
100 or fewer	24
101 – 200	16
201 – 500	20
501 – 1000	24
Number of potential helpers	Percent of respondents
2 - 10	25
15 - 25	25
30 - 50	22
80 – 100	16
More than 100	12

Figure A: Overview of Stages of Venture Creation Process

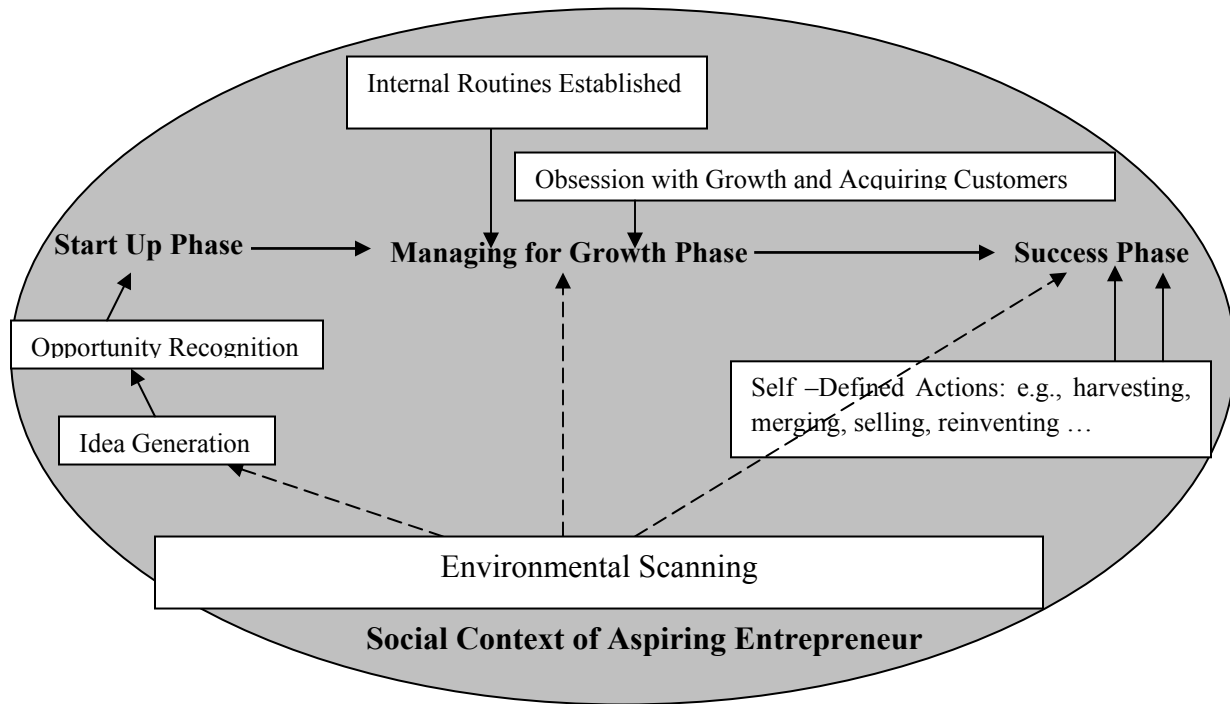
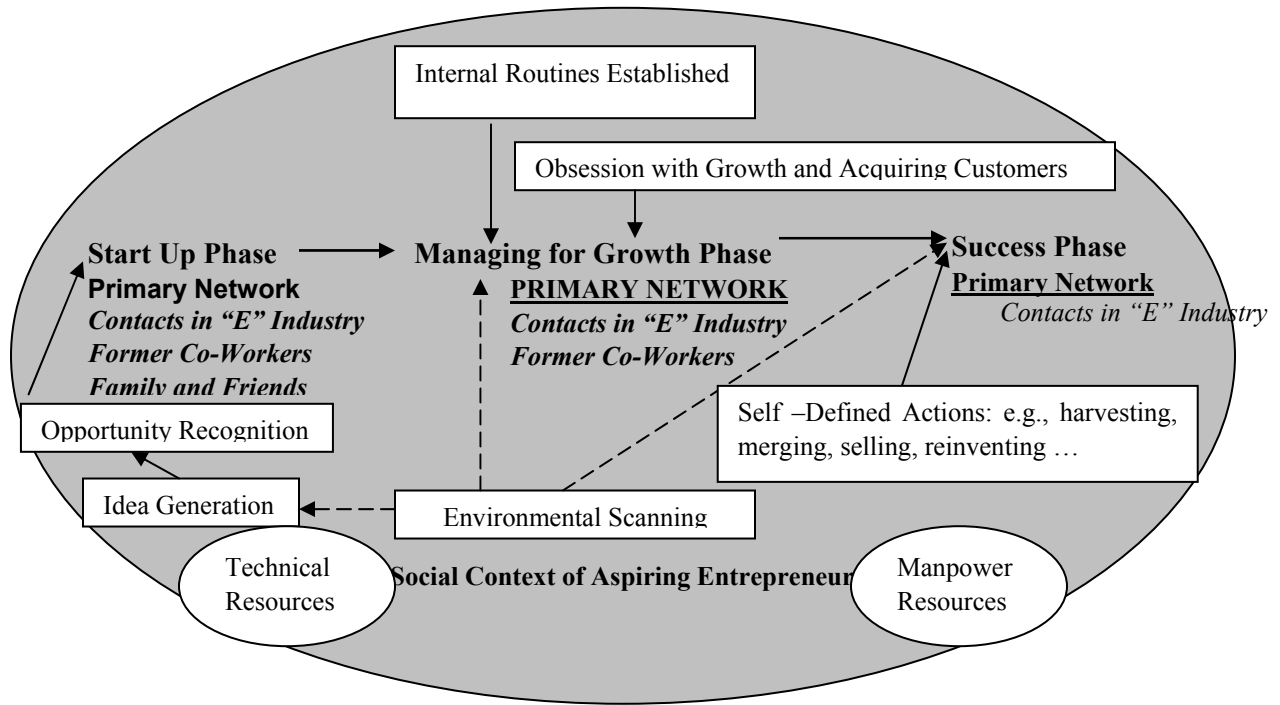


Figure B: Overview of Stages of Venture Creation Process and Primary Networking Partners



# THE DARK SIDE OF SOCIAL ENTREPRENEURSHIP

Densil A. Williams, University of the West Indies, Mona  
Kadamawe A.K. K'nife, University of the West Indies, Mona

## ABSTRACT

*This paper is conceptual in its outlook. It provides a new lens through which scholars in the emerging field of social entrepreneurship should view the concept in order to come to a better understanding of the field. It raises the question as to whether or not all enterprises that deliver a social service can be duly classified as social enterprise and be linked to the wider field of social entrepreneurship. This question becomes relevant when the context within which the social service is being delivered is taken into consideration. Garrison communities in Jamaica provided the context within which the current paper analyses the question.*

*The paper argues that the line between violence as a business, which generate funds to support enterprises that deliver social services to ensure power and control by gang leaders and, social enterprise, which deliver social services to transform lives through the creation of social value has become blurred. This, we call the **dark side of social entrepreneurship** and argue that the discourse on social entrepreneurship cannot ignore this phenomenon, especially in developing countries with a high number of vulnerable communities.*

Key words: *Garrison, Social Enterprise, Jamaica, Social Entrepreneurship*

## INTRODUCTION

The concept of social entrepreneurship is not a tidy one (Peredo & McLean, 2006; Mair & Marti, 2006; Seelos & Mair; 2005; Dees; 1998). There appears to be a blurring of the boundaries as to what constitutes a social enterprise and more so, social entrepreneurship as a concept. This is further muddled by the fact that a number of organisations that have questions surrounding their legitimacy but which carry out social functions, for example, criminal gangs, are sometimes categorised as social enterprises and fall under the rubric of social entrepreneurship. This situation appears to be most prevalent in societies that are low growth, with high levels of poverty, high unemployment, and large social dislocations. In these contexts, social enterprises tend to have a significant impact but it is not always clear whether or not the intent is really social, or is there another darker motive behind the benevolence being distributed under the guise of social entrepreneurship. It is these issues that have motivated the research presented in this paper.

The paper hopes to understand whether or not we can categorise all enterprises under the heading, social entrepreneurship once they are involved in creating social value in a community. Shedding light on this issue has serious implications for how we conceptualise the term social entrepreneurship and build a general understanding of the concept. To achieve the aims of this work, the paper is organised as follows: the next section will present a discussion on the definition of social entrepreneurship, and also social enterprises. This will be followed by a review of the context in which the study is focused. This review is important as it provides a better lens through which one can understand the problem that is being raised in the paper. Here, we will look at the social dislocation in Jamaica, in what are called garrison communities where a lot of the social enterprise activities take place but under questionable circumstances. Following this, a discussion will be presented to show how the characteristics of the activities in these communities reflect the nature and characteristics of social enterprises. This will help us to draw conclusions about whether or not all social enterprises can be labelled under the theme social entrepreneurship. The paper will end with a discussion and some concluding remarks.

### **WHAT IS SOCIAL ENTREPRENEURSHIP**

While the phenomenon of social entrepreneurship is not new, it appears that the language, i.e. the concept is just emerging. Entrepreneurship as a concept aimed at improving the economic development of nations, has gained significant amount of attention in the literature (Venkataraman, 1997; Shane & Venkataraman, 2000; Gartner, 1988 etc). However, entrepreneurship as a process aimed at reaching sections of society where the traditional markets have failed to reach or put another way, entrepreneurship which aims at transforming societies through social progress, has recently started to receive attention in the literature (Dees & Elias, 1998; Mair & Marti, 2006; Alvord et al, 2004; Seelos & Mair, 2006 etc). The newness of this phenomenon like in all other fields of study in their developmental stage, suffers from inconsistency in definition, and disjointed research findings, poor theoretical developments and its boundaries as they relate to other disciplines are still under-developed. At this stage in the development of the field, social entrepreneurship means different things to different people (Dees, 1998).

One group of researchers sees social entrepreneurship as merely reflecting non-profit initiatives that are geared to create value to those that the traditional markets will not reach (e.g. Bosche, 1998; Peredo & McLean, 2006). Others see it as using business principles to solve social problems. Indeed, Pomerantz (2003) noted that social entrepreneurship involves taking businesslike, innovative approach to the mission of delivering community services.

Other researchers have also attempted to coin a working definition of the concept. Indeed, Mair and Marti, (2006) have identified social entrepreneurship to be a process involving the innovative use and combination of resources to pursue opportunities to catalyse social change, and, or address social needs. This view of social entrepreneurship mirrors that of



Pomerantz (2003). It really reflects basic business assumption which underlies the entrepreneurial process. Social entrepreneurship, it appears, narrows down to value creation using available resources in new ways. However, the value created is intended to create social change or meeting social needs (Bornstein & Davis 2010; Brooks, 2009).

Further, other scholars have seen social entrepreneurship as a field of enquiry, which provides a substitute for the market discipline that works in the field of business entrepreneurship. In other words, social entrepreneurship is not merely market/business entrepreneurship that is not working effectively or efficiently. Social entrepreneurship should have its own discipline and accountability with notions of value creation innovation and opportunity recognition similar to business entrepreneurship (Brooks 2009). In this regard, Dees (1998) offered the following insight on what social entrepreneurship should be by focusing on the attributes of a social entrepreneur. According to Dees (1998), social entrepreneurs play the role of change agents in the social sector by:

- Adopting a mission to create and sustain value
- Recognising and relentlessly pursuing new opportunities to serve that mission
- Engaging in a process of continuous innovation, adaptation and learning
- Acting boldly without being limited by resources currently in hand
- Exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created.

A closer look at these criteria which define a social entrepreneur shows that this ideal is not easy to be met and as such, it is the degrees to which the players in each sector achieve them that one can define the enterprise as social entrepreneurship.

Other scholars have also added more dimensions to the already fuzzy concept in order to derive a consensus on what really constitutes social entrepreneurship. In this regard, Peredo & McLean (2006) perceived social entrepreneurship as being exercised where a person or group of persons:

- aims to create social value either exclusively or in some prominent way;
- shows a capacity to recognise and take advantage of opportunities to create value;
- employs innovation, ranging from outright invention to adapting someone else's novelty in creating or distributing social value;
- is willing to accept an above average degree of risk in creating and disseminating social value; and
- is unusually resourceful in being relatively undaunted by scarce assets in pursuing their social venture.

These characteristics should help to distinguish social entrepreneurship from other forms of entrepreneurship. However, on closer examination, it appears that the first characteristic is the

most important in making the distinction between social entrepreneurship and other forms of entrepreneurship. At the heart of social entrepreneurship is the need to create social value. In this regard, Seelos & Mair (2005) posited that social entrepreneurship creates new models for the provision of products and services that cater directly to basic human needs that remain unsatisfied by current economic or social institutions.

Social entrepreneurship it seems, like business entrepreneurship, fills a gap by looking at opportunities to improve systems, create solutions and invent new approaches. However, the distinction comes when one looks at the core objectives for the activity. For social entrepreneurship, the primary objective it is argued; is social value creation while economic value creation is a by-product that helps the enterprise to be sustainable and self-sufficient (Seelos & Mair, 2005). This primacy of social value creation led Seelos & Mair (2005) to further refine their definition of social entrepreneurship to mean entrepreneurship which creates new models for the provision of products and services that cater directly to the social needs underlying sustainable development goals such as the millennium development goals (MDGs). The authors went on to make an important point about social entrepreneurship which has resonance to the analysis represented in this paper. They noted that social entrepreneurship often create tremendous value when catering to very basic needs such as providing medicine or food which can be a matter of life or death for those who receive them. This is important, as most of the data provided in this analysis speak to ventures that act as social enterprises with the provision of food and medicine to the less fortunate as their major goal.

While the proposed definitions shed some light on the concept, they still do not provide the strong consensus on what really constitute social entrepreneurship. In most cases, the definitions are idealised notions of social entrepreneurship which cannot be operationalised. However, there seems to be some consensus that social value creation must be the primary objective in order for an entrepreneurial activity to be classified as social entrepreneurship. It is those activities that have as their goal, social value creation that this paper will critically analyse to determine whether or not they fit the categorisation of social entrepreneurship. This paper will take as a working definition of social entrepreneurship, activities which are targeted at persons who have a need but are unable to afford to satisfy this need by engaging in the traditional market activities. Indeed, at the heart of these activities is not the profit motive, but the willingness to serve the less fortunate in a society.

## **A CONTEXT FOR STUDYING SOCIAL ENTREPRENEURSHIP**

Mair & Marti (2006) noted that social entrepreneurship has different facets and varies according to socio-economic and cultural environment. This section of the paper will examine the socioeconomic environment of Jamaica in order to critically analyse the nature and characteristics of social enterprises that are operated in economically depressed areas and more

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so, garrisons, to determine whether or not it is indeed legitimate to classify these enterprises as such.

As it relates to crime and violence and low economic growth, Jamaica finds itself in a precarious position. Jamaica is ranked in the top five countries in the world in business start-ups (GEM 2005, 2006) and in the top three in the world for homicides. As highlighted in the CCYD:

*“Latin America and the Caribbean has the highest homicide rates of men between the ages of 15-29 in the world (68.6 per 100000); more than three times the global average of 19.4. Furthermore, it is estimated that young men in the 15 to 35 age group commit 80 per cent of the crime in the region...Leading the region in this area is Jamaica, where the youth under age of 25 were responsible for 51 percent of all murders and 56 percent of all major crimes in 2000 (CCYD 2010, p. 67).” The CCYD further reports that crime and violence is linked to “poverty, unemployment, social inequalities, high unemployment, and limited business opportunities (CCYD 2010, pg 67).”*

These problems are even more pervasive in garrison communities. Garrison communities, which Stone (1986) observed as military strongholds that are centred around political tradition, cultural values, beliefs, myths and socialization, came about as a result of political parties setting up housing projects in specific areas and populating them with supporters. These supporters chase out the non-political supporters at gun point, and all movements are monitored by gang leaders. These communities are maintained by violence towards the citizens and party political values by the gang leaders. The arrangements in these communities have kept people in a persistent state of poverty for a long while (Henry-Lee, 2005; Harriott 2003; Figueroa & Sives, 2002). Due to the lack of opportunities for upward social mobility for the citizens who live in these communities, some are normally drawn to the criminal gangs, which carry out philanthropic activities and act as protector of the community. These gangs generally sell violence as a business and use the proceeds to deliver “social value” to the communities. Indeed, Harriott, (2003) noted that:

*“Violence has become a business, a field of entrepreneurial activity. There are now groups and individuals who sell violence as a service (this is what the protection racket is about), or who employ it to extort money from their victims. Those who control groups of armed men may exploit this as an economic asset by dominating an area and forcing persons who operate businesses within the areas under their control to pay tax”.*

These gangs it appears; try to legitimize their activities by structuring their operations similar to those of social enterprises. Social entrepreneurship given its flexibility to address both social and economic issues provides a meaningful vehicle to resolve some of the many problems which beset the garrison communities such as; ineffective national and community security service from the state, poor waste management, inconsistent electricity supply, lack of health clinics, limited potable water among others. More specifically, through its inclusive approach, social entrepreneurship can enhance the social capital that youth would find within gangs,

through the development of partnerships and social networks. Indeed, within the context of developing countries, it provides a mechanism to adequately replace the socio-economic role being played by the leaders of gangs, which is not being satisfied by the state institutions. Gang leaders are very powerful in garrison constituencies and they operate as the real entrepreneurs behind most of the enterprises which deliver social services in these communities. Their motivation however is not really social value creation but instead, to ensure the loyalty to political values and beliefs in order to maintain the garrisons. This is what has contributed to the blurring of the lines between genuine social enterprises and violence as a business, which is used to fund social enterprises that deliver social value in garrison communities. This generally happens because it is not always easy to separate the gang leader from the entrepreneur, since both tend to exhibit similar entrepreneurial traits.

### **LINKING THE ATTRIBUTES OF ENTREPRENEURS AND GANG LEADERS**

Chell et al (1991) argued that the image and motivational factors for entrepreneurs are similar to that of a criminal. Further, Van Duyne (1993) argued that both organised criminals and legitimate entrepreneurs operate in a similar manner. Scott (2008) pointed out that, attributes such as a desire for independence and autonomy, and a willingness to disregard rules and conventions lead people to both engage in criminal activity, and similarly to start businesses. Cassons (1982) further argued that it is normally only organised crime which qualifies as being entrepreneurial. Harriot (2007) also supported this view. Organised crime is seen as Jamaica's main crime problem; Harriott (2007: pg 36) noted that organised crime is Jamaica's number one problem because "..... it has made a successful business not just of crime but violent crime".

Further, Fairlie (2002) argued that those who engage in illegal activities tend to have a strong desire for self employment and determination that is often realised in the drug trade. Also, Baumol (1990) opined that the number of start-ups in business depends a lot on the incentives offered for entrepreneurship. He noted that in countries where there is an absence of meaningful incentives people with the desire and talent to become entrepreneurs often turn to crime. This argument finds resonance in the context of many developing countries. In most developing economies, there is no robust entrepreneurship policy which guides the development of start-ups worse yet, a robust incentive schemes. When this is the case, the implication for entrepreneurship can be disastrous. Williams (2006) argued that a resultant effect is that entrepreneurs often commence their operations informally and may continue to do so even when it is established.

The Schumpeterian idea of an entrepreneur can be easily linked to the attributes of the leaders of criminal gangs who organise their activities along the line of social enterprises. Indeed, Schumpeter (1934) identified three main motivational factors for entrepreneurial action; 1) the desire to found a private kingdom or dynasty, 2) the will to win fight and to conquer, and 3) the joy and satisfaction from creation and problem solving. Smith (2009) argued that the

Schumpeterian idea of the entrepreneur as creative destructor and Kirzner idea of the entrepreneur as an opportunist trader are theories which are helpful in ascribing entrepreneurial status to criminal behaviour. He further argued that the Schumpeterian entrepreneur is a unique and creative individual who develops new products, services and techniques which innovate the way in which people operate in a given environment. This does suggest that there is some special quality in the behaviour of the individual. These attributes and characteristics seem to suggest that like a legitimate entrepreneur, leaders of criminal gangs can also be classified as entrepreneurial and therefore, their enterprises can be seen as entrepreneurial enterprises. This is where the blurring of the line occurs when one views the idea of social entrepreneurship within the context of garrison communities. Can social enterprises which are funded by resources from organised crime be categorised as social entrepreneurship? Has the attempts to define social entrepreneurship taken this contextual situation into consideration? These are important questions that must be settled in order to build a general understanding of the concept. The aim of this conceptual paper is to bring these ideas on the table in order for theorists in the area to view social entrepreneurship through a different lens.

The case below presents anecdotes of enterprises operating in a garrison community in Jamaica in order to reveal some of the social value creation which these enterprises are engaged in and to show how easily one could conflate the actions of these enterprises with the concept of social entrepreneurship.

### **THE SOCIAL ENTERPRISE PHENOMENON IN VULNERABLE COMMUNITIES**

In garrison communities in Jamaica, the basic needs of most citizens remain unmet. There is a high level of unemployment, high levels of illiteracy, poor sanitation, poor housing stocks, poor security among other things. Most of these basic needs are unmet due to inadequate state support and because the citizens cannot afford to pay for the product or services which are offered by the market. For example, high level of illiteracy exists because parents are unable to afford to send their children to school, poor sanitation exists because households cannot afford the costs of water or building proper infrastructure to dispose of waste etc. Given resource constraint and in most cases, poor management at the national level, formal institutions fail to provide these services to these vulnerable communities. This thus leaves a gap which criminal gangs operating under the guise of social enterprises, fill. They will use social enterprises to fill the gap left by the absence of traditional markets to meet the needs of the poor and the vulnerable. However, their main motivation is not necessarily social but to maintain power and control over these communities. This is where it becomes difficult to draw the line between social enterprise and illegal enterprises carryout social roles.

## CASE 1: ABC CORPORATION

### Background

ABC Corporation emerged out of the political/ historical experience of Jamaica. It started as an informal entity within an inner-city garrison community in Jamaica. The current 'CEO' is the son of the deceased gang leader (Don) of a reputed macro-criminal group of the community, who was also a strong man for a political party. Within this relationship the 'Don's main focus was to ensure political support for the political party. For this he would receive pay-outs in the form of cash and/or contracts. Under his father's 'ruler-ship' the network expanded to become a transnational entity that engages in the international narcotic trade. The revenues generated from both sources were used to support the members of the organisation as well as the general community members.

Upon the death of his father, the older brother of the current CEO succeeded the position of the Don but was soon killed. After the death of his brother, he resigned from his work in the formal economy and took up his current portfolio as the new Don/CEO/President. During the tenure of his brother and father the organisation became one of the biggest transnational organisations in the region, having arms within the Jamaican Diaspora. As the new Don/CEO his primary mandate was to formalize the family business. From the onset he registered several companies; while still operating informally in both legal and illegal activities. As the CEO for both sets of enterprises he created a cadre of support and network within both the formal and informal economies. He communicated to the stakeholders a new vision of self-governance, economic independence and sustainable community development, with a clear understanding of the path of decision making and rule of 'law'.

### Enterprise – Formal and Informal

ABC Corporation registered construction, security and trading companies, albeit not in the Don's/CEO's name but he sits on the board of some of these entities. Additionally, he constructed several plazas in and around the surrounding communities which were offered to the community members to operate their businesses. The security services bolstered his network within the formal sector in particular the wharf and piers in Jamaica. This network created a critical platform which facilitated the transnational narcotic trade.

The CEO extended the security service to the informal sector as well. It is argued that he organised the entire market system in the downtown Kingston area, ensuring that both buyers and sellers were safe. It is also believed that he also organised the parking and transportation network establishing a quasi 24hrs shopping area. Carting services, parking services and security services were organised to ensure the safety and smooth operations in the market area. Additionally, funding was provided for members of the communities who had interest in

establishing business. Formal business service providers were invited to the community to establish their centres to support MSME development within the community. A deliberate effort was made to convert all empty and abandoned lots into commercial spaces that were made available to community members.

### **Social Intervention Activities**

At the heart of ABC's operations was community buy-in and loyalty, as such there was a deliberate move to establish community programmes. These programmes include:

- Establishing of the ABC youth club which focuses on youth empowerment and development with emphasis on conflict resolution and violence prevention
- Kids programme – emphasis being on back to school, providing school fees and scholarships, books, uniforms, bags, shoes and lunch.
- Golden age programme for the support of the elderly, providing food, medication, clothes etc.
- Financial and other support were offered to those in the popular culture in particular dancehall. As such, events were organised, this created an opportunity for community members to engage in weekly commercial activities. Music studios were also erected and permission was granted to those in the music and film industry to shoot videos to support the music and film industry.
- There was an articulated community safety and security programme which sought to ensure that there was no crime in the community and that conflicts were resolved 'justly'. The community developed the reputation as being the safest community in the country and a place that persons from anywhere in the world could attend an event without any fear of harm. Persons who were victims of crime could report the incident and the issue would be resolved and all possessions were returned, without fear of future victimization.
- Urban agriculture programme was also supported to include animal husbandry and farming. Farming equipment and financial support was offered for these ventures. There is a strong emphasis on supporting ventures operated by women, in particular mothers. It was expressed that an underlying philosophy in the community is 'even if the child could not go to school for the day, he/she must not go to bed hungry'.
- Finally, persons from the community that became incarcerated were supported financially and materially while in prison. Additionally, their families, in particular their children, were supported so as to ensure that they could consistently attend and school.

The CEO of ABC is now incarcerated and receives strong support from his community. While incarcerated, he is still acknowledged as the 'President/CEO'.

## DISCUSSION

Are all social actions truly aimed at creating social values or do they have other motivations? Can we classify all enterprises that deliver social services under the rubric of social entrepreneurship? These are the questions that must be considered carefully, if we are to better understand the concept of social entrepreneurship.

In some context, indentifying a social enterprise is not an effortless task. Seelos & Mair (2005) for example, identified a number of enterprises which are classified as social enterprises. These include the Institute for One World Health (USA), which delivers medicine to persons in need in developing countries. Large philanthropic organisations and governments provide much of the initial funding for this activity in which the organisation is engaged. Another institution is Sekem; which pioneered biodynamic agriculture in Egypt. Sekem developed a new system of plant protection for cotton, which has led to a ban on crop dusting through Egypt. Profits from Sekem are used to fund institutions such as schools, adult education centre, a medical centre among other things. Also, possibly the most known social enterprise is the Grameen Bank which grants unsecured loans to the poor in rural Bangladesh. The bank supplies credit to those who would not qualify as customers of established banks.

The cursory look at the above enterprises begs one to ask the question, what do these enterprises have in common with the ABC enterprise described above? A closer reading reveals that like ABC enterprise, which operates in a garrison community in Jamaica, these enterprises fill a gap in the market where traditional institutions fail. Social mission seems to be their overall goal although they are organised using similar principles to traditional businesses. On the surface therefore, one could easily aggregate all these enterprises under the common classification of social enterprise and the discipline of social entrepreneurship. However, closer examination suggests that this can be a dangerous route to take as there are characteristics of ABC that would blur the line between social enterprise and violence as a business which is used to fund social activities.

On closer examination, one will recognise that the resource accumulation to operate these enterprises provides some clues as to whether or not we are talking about violence as a business which tries to legitimize the operations through social enterprises or, genuine social enterprises which are aimed at social value creation. The business model for Grameen, Sekem and One World Health is very clear. These enterprises raise funds for their initial activities mainly from philanthropic organisations and in some cases governments. These funds are then used to provide a service to a section of the market which is not reached by the traditional institutions using traditional business principles when supplying this service. The profits from these enterprises (e.g. in the case of Sekem) are then used to supply services which meet the unmet needs of the citizens in the society or community. ABC enterprise, like Sekem, provides a service to meet the unmet needs of the citizens in the community (e.g. funding school programmes, building adult learning centre, providing medical care etc). However, the resources used to fund ABC



enterprise is not as transparent as in the case of the other corporations listed above. Importantly, from the descriptive case above, the data show that the enterprise is run by a single individual who is referred to as the don or gang leader in these garrison communities. Numerous scholars on crime and violence and poverty in the garrison communities in Jamaica have highlighted the role of dons or gang leaders as the protector of these communities through his control of resources gained from engaging in the business of violence (Harriot, 2003; 2007; Stone, 1986, Figueroa & Sives, 2002; Henry-Lee, 2005). The owner of ABC enterprise does not have a history of running profitable enterprises and has no known stock of wealth from which to fund the social initiatives which are undertaken. The suspicion is that the drug trade has provided a source of funds to operate the enterprise and thus provide social services to the poor in the community. The main aim of ABC is not to meet the unmet needs of the citizens but to maintain control over the communities and to get the citizens to pledge loyalty to him and the values of his political party. This is typical of the don who is identified in Stone, (1986). Therefore, since it appears that the real motivation is not to create social value but to maintain power and control over the vulnerable, where does one draw the line between the truly social enterprise and criminals who fund enterprises which carry out a social goal but with the real aim of maintaining power and control? Indeed, on the surface, ABC enterprise appears to be similar to a Grameen, One World Health, Sekem in that it provides a useful service to those that are not being reached by traditional institutions, but a closer reading of its operations and governance shows that it does not fit neatly into the rubric of social enterprise and by extension, the model of social entrepreneurship.

### **CONCLUDING THOUGHTS**

The burgeoning field of social entrepreneurship is an important area, especially in a developing country context where markets are not always efficient and a large number of persons are left on the periphery because the traditional markets do not find it profitable to meet their unmet needs. Social enterprises will help to fill those gaps by providing services which traditional institutions shun, but applying sound business principles in the provision of these services. The main criterion of what should be considered social enterprises is the intention to create social value to transform the lives of the poor and persons who cannot afford services provided by traditional institutions. However, it does not appear that all enterprises that offer social services can be neatly classified as social enterprises and by extension fit into the theme of social entrepreneurship. It appears that context plays an important role in determining whether or not an institution that offers a social service is, indeed, a social enterprise. The motivation for offering the service is a critical variable that one has to take into consideration when ascribing social enterprise status to an institution.

The data presented above show that it is not always clear when one tries to determine whether or not an enterprise fits into the field of social entrepreneurship although it carries out a

social function. While some enterprises deliver social services to a community, the motivation may not always be benign. In the context identified above, control and loyalty motivates social enterprises which operate in the garrison communities in Jamaica. The real aim is not to transform the lives of the poor through value creation. This is why garrisons have such high levels of poverty although the poverty rates in Jamaica have seen a down trend since the 1990s (Henry-Lee, 2005).

It is therefore important that if the field of social entrepreneurship is to move forward, it will have to take into account, the darker side of the concept since this can distort any attempt to build a general theory to explain the phenomenon. It is important that researchers do not conflate social activities that are funded by resources gained from the business of violence with social activities that are aimed at truly creating social value and transforming lives using social entrepreneurship. It is important that these issues are taken into consideration since the field is in its nascent stage and one does not wait until it matures. This will help to make clear, the definition of what really constitutes social enterprises. This issue is still not fully settled in the field. This paper has provided another lens through which to view the issues surrounding social enterprises and social entrepreneurship in general. Context does play a role in this regard.

### AUTHOR'S NOTE

Densil Williams is a senior lecturer of International Business in the Department of Management Studies. Kadamawe K'nife is a lecturer in Entrepreneurship in the Department of Management Studies.

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# ARTISTS AS ENTREPRENEURS

**Keramat Poorsoltan, Frostburg State University**

## ABSTRACT

*Do artists possess at least some of the traits attributed to entrepreneurs? For this research, three of the traits- tolerance for ambiguity, risk-taking, and internal locus of control- were selected.*

*Tolerance for ambiguity: As creative persons, artists are tolerant to ambiguity and prepared for unstructured situations. Other studies, too, have shown a significant and positive relationship exists between creativity and tolerance for ambiguity.*

*Risk-taking: Artists just by simple act of creating new things are risk-takers. In words of artists, they have to take risk if they desire to be well known in an environment that is highly competitive and not much rewarding. Risk-taking artists through experimentation in form and/or content, blur the boundaries of the traditional disciplines.*

*Internal locus of control: The third finding of the study supported the prior assumption that artists have internal locus of control that is the creative people not only are risk takers, and are comfortable with ambiguities, but also believe in themselves and state they are in control of their decisions and activities.*

## INTRODUCTION

The great advocate of entrepreneurship, the German economist Joseph Schumpeter (1934), developed an important theory of economic development that depended upon a process of “creative destruction.” He saw the entrepreneur as the one who is able to innovate “new combinations” of the existing materials. Obviously, recombining needs an initial destruction, however, a creative one. In this process entrepreneurs upset the equilibrium in the market by introducing and developing new products and services, new methods of production, new markets, and new forms of organizations. In fact, as he stated in his book, *The Theory of Economic Development*, the entrepreneur is the source of all economic development and business cycle. Without this element, there is no economic development, hence his famous concept of “the circular flow”-the process of no growth.

This worldview of Schumpeter has a limitation. Few people have the ability to be innovative and creative. Thus to perform the role of an entrepreneur, one must possess some exceptional qualities, or as has later been discussed extensively, “endowed” with some special traits. Numerous academic and non-academic writers and researchers have looked for these

special traits. Schumpeter himself believed (1947) that entrepreneurs needed “a drive to overcome obstacle, a joy in creating, and satisfaction in exercising one’s ingenuity.”

<b>Table 1: Traits of Entrepreneurs</b>	
<b>Ability to adapt and flexibility</b>	Low need for status and power
Ability to Focus	Low need for support
Ability to get along well with others	Motivation by money as a measure of success
Aggressiveness	Need for achievement and growth
Alertness to change and opportunity in marketplace	Objective approach to interpersonal relationships
<b>Ambition and future orientation</b>	Optimist
Analytical	Passionate
Attitude of Success	Persistence
Attraction to challenges	Persistent problem solving
Confident assertiveness	Practicality and action orientation
Constantly Learning	Preference for broad direction rather than detail
<b>Creativity and Innovativeness</b>	Prime mover
Discipline	Quality-Minded
Dislike of interruptions	Realism and sense of humor
Dislike of wasted time	Reasonableness and shrewdness
Dreamer	Resourcefulness and Persevering
Drive for status improvement	Respond positively to challenges
Drive to Succeed,	Responsiveness to criticism and suggestions
Energy and drive	Restlessness
Extreme self-confidence and optimism	<b>Risk-Taker</b>
Flexible/Non-Structured	<b>Search for excellence</b>
Focus and determination on execution	Self-Starter
Goal oriented	Stress-resistant
Hard Working	Strong competitive spirit
Having pictures of the future in one’s head	Stubbornness
<b>Independence</b>	Superior conceptual ability
Integrity and reliability	Taking Initiative and Personal Responsibility
Intelligent	Team Player
<b>Internal locus of control</b>	<b>Tolerance for ambiguity</b>
Lack of emotionalism	Versatile minded
<b>Leadership</b>	Visionary
Loner	Will to Win
Low conformity	Willingness to start from small
Items in <b>bold face</b> depict some consensus among the authors who proposed the traits	
Sources: Walsh and White (1985), Timmons (1994), Reynolds, Savage, and Williams (1994), McClelland (1961, 1987), Hornaday and Aboud (1971), Hornaday (1982), Meredith, Nelson, and Neck (1982), Casson (1982), Buttner and Rosen (1988), Aldrich and Zimmer (1985). Begley and Boyd (1986), King, J. (2004), Lumpkin, and Dess (1996), Cohen (1980), Black, et al (2005)	

In regard to what constitutes traits of entrepreneurs, a large number of authors have suggested a vast array of qualities. Table one demonstrates an almost exhaustive list of the characteristics of entrepreneurs. These characteristics, however, can be divided into three groups: the first relates to the entrepreneur's personality, the second to the entrepreneur's skills and the third to the entrepreneur's background and experience (Ray, 1993). Furthermore, Kuratko and Hodgetts (1992) believe that many of the various factors are basically different facets of the same few main characteristics and can, therefore, be consolidated into a much smaller set of profile dimensions.

### **OBJECTIVE, HYPOTHESES, AND METHODOLOGY**

The main objective of the research was to explore whether artists share some of the traits attributed to entrepreneurs – mentioned in table one- and thus can be considered as entrepreneurs as well. The traits that were selected to be tested in this study were, 1) tolerance for ambiguity, 2) risk-taking, and 3) internal locus of control. These three traits are among the most agreed upon traits ascribed to entrepreneurs and have been mentioned and tested by many authors. I used these traits and hypothesized that if artists are to be regarded as entrepreneur, they should:

*H1 Manifest a considerable degree of tolerance for ambiguity,*

*H2 Be risk-takers, and*

*H3 Have internal locus of control*

For this study I used mail survey method as the most cost effective way to reach the sample selected and collect data. A pretest of the questionnaire was given to an undergraduate class of about thirty students. From their responses ambiguous questions were identified and corrected. Also, the questionnaire underwent further modifications to reflect the input received from the participants in a nationwide assembly of artists in Chicago in February 2005 where the questionnaire was distributed.

The sampling frame for this study was compiled from three mailing lists that were obtained from the artists' alliances and associations in Western Maryland, Northern Virginia, Southern and Western Pennsylvania, and eastern West Virginia. Following a lengthy search through websites and telephone directories, as well as telephone calls, these lists were merged, mistakes corrected, and duplications were removed. In total I ended up with 550 names. The survey questionnaires and a cover letter were mailed on June first, 2005 to all the names on the list. One month after the initial questionnaires were sent out, a reminder e-mail message was sent to all survey recipients. This message reminded people to take the survey, and also extended the

return date to August first, 2005. At the end, I had 124 responses (a 23% response rate) that all were usable.

## FINDINGS AND DISCUSSION

Findings of this research are divided in two parts: In the first part the results of testing the three hypotheses are discussed; do artists demonstrate traces of entrepreneurial traits? In the second part we will observe relevant information- such as demographics and specialty- about the artists themselves. The literature review is incorporated in the analysis and as an integrated part of the report, it can be found throughout the paper.

### Entrepreneurial Traits

As explained before, out of a long list of traits attributed to entrepreneurs (table one), I selected three. These were tolerance for ambiguity, risk-taking, and internal locus of control. In this section of the research (tables two, three, and four) we will discuss and analyze the findings with regard to these traits.

#### *Tolerance for ambiguity*

According to Budner (1982), ambiguous situations can be defined as those that involve novelty, complexity, or insolubility. Norton (1975) found that psychologists use eight different categories to define ambiguity. They consist of: 1) multiple meanings, 2) vagueness, incompleteness, or fragmentation, 3) likelihood, 4) lack of structure, 5) lack of information, 6) uncertainty, 7) inconsistencies & contradictions, and 8) lack of clarity. Many of these situations or categories are common in situations that occur in artistic settings: in literature (a pun or joke), in music, and in the visual arts (an optical illusion or trompe d'oeil in painting). Facing ambiguous situations, artists by their very nature need to be flexible and situation-tolerant, itself a pre-condition for being creative. Creative people tend to be more accepting of the things they do not understand, things that are indescribable and contrary. "Dogmatic thinking goes a long way toward stifling the creative mind because all the explanations for things come prepackaged for your consumption...(as artists), we spend our lives making new associations, connecting unlike things to build a new and synergetic idea...our entire job is to find new ways to look at the world, reinterpret what we know, defy logic and rule." (Herzog, 2010)

For this study, a number of questions reflecting the above discussion of ambiguity were designed and included in the survey (table two)

The significance of these statements is the fact that tolerance for ambiguity and creativity- a prominent trait of artists- are related. In other words, a creative person must be tolerant to and prepared for unstructured situations. A number of studies support the view that



those who are tolerant of ambiguity tend to be creative people. The results of research (2002) conducted by the Germany's Klinik für Psychiatrie und Psychotherapie, confirms that there is a positive correlation between tolerance of ambiguity and creativity. In the words of Zenasni and others tolerance of ambiguity is significantly and positively related to creativity. Findings of Tegano (1990), too, give support to this statement. A research conducted by Wolfradt and Pretz (2001) maintains that there is a positive relationship between openness to experience and all creativity measures. They state, yet, that future research should clarify the nature of the creative personality across individuals of differing levels and domains of expertise. Creative people are widely known for resisting rigid, formulaic approaches, and are not afraid to choose pathways laden with risk and potential drawbacks. Tolerance for ambiguity has also been associated with numerous markers of success, including positive attitudes toward risk (Lauriola and Levin, 2001). Simons, et al (1987) maintain that tolerance for ambiguity is associated with the internal locus of control, itself another characteristic attributed to the entrepreneurs.

**Table 2: Tolerance for Ambiguity**

Question	Very accurate (%)	Moderately accurate (%)	Moderately inaccurate (%)	Very inaccurate (%)	No response (%)	Mean	Standard deviation
1-People who fit their lives to a schedule probably miss most of the joy of living.	15.32	41.13	33.87	8.87	0.81	2.34	0.87
2-It is more fun to tackle a complicated problem than to solve a simple one.	33.06	41.94	21.77	2.42	0.81	1.92	0.82
3-Often the most interesting and stimulating people are those who don't mind being different and original.	63.71	33.06	3.23	0.0	0.0	1.39	0.55
4-Many of our most important decisions are based upon insufficient information.	18.55	46.77	25.81	8.06	0.81	2.22	0.87

### *Risk-taking*

As colorfully described by the Princeton professor, Goldstein (2000), “to take risks means to subject yourself to forces that are not entirely in your control. After all, if you could control them, there would be no risk. A risky action then introduces into your life a certain element of pure passivity. You open yourself up to being affected -how significantly is part of the measure of the risk - by events outside your sphere of influence. There are actions I’ve undertaken precisely because they were risky, grasping that live wire of passivity that zaps me

into full wakefulness. And then there are things that I do despite their riskiness. My career belongs entirely to the latter category.”

Sexton and Bowman (1985) explain that risk-taking may be perceived as “an individual’s orientation toward taking chances in a decision making situation.” The findings of this part of the study- artists as risk-takers- support the hypothesis that artists are inclined toward “taking chances”. By taking chances, entrepreneurs overcome the “fear of exposure”, and take steps that defy the “conventional wisdom.” They are mindful of the fact that business as usual is not effective any more. Creativity is the key to success. What's the connection then between creativity and risk-taking? Pablo Picasso provides the penetrating insight: "Every act of creation is also an act of destruction." Only by breaking from conventional ways of thinking, exploring and operating can we put together new concepts, approaches and products. These are what artists do.

**Table 3: Risk-Taking**

Question	Very accurate (%)	Moderately accurate (%)	Moderately inaccurate (%)	Very inaccurate (%)	No response (%)	Mean	Standard deviation
1-I have had performances/shows in places in which I knew nobody	56.45	24.19	9.86	8.06	1.61	1.66	0.97
2-I create my works before I know there is a market for them	50.81	33.06	12.90	2.42	0.81	1.65	0.81
3-I am sure about certain income selling art work each month	10.48	18.55	20.97	48.39	1.61	3.04	1.11
4-I can walk up to a total stranger and strike up a conversation.	45.16	31.45	13.71	9.68	0.0	1.88	0.98
5-I am hesitant to be different from others in exhibiting my artwork	8.87	12.10	36.29	41.94	0.81	3.10	0.98

Table three exhibit the findings related to the notion of risk-taking by artists: Question 1) a large percentage of the respondents (over 80%) indicated that they have had performances or shows in places in which they knew nobody. This is where they prevail over the fear of exposure. Question 2) another sign of ability to take a risk is when a person (in this case, an artist) creates something without any assurance that it can be sold. Of the survey respondents about 83% either strongly or moderately agree that this is the case. Question 3) another indication of risk-taking is uncertainty about a certain income. In response to this question, only

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about 29% agree or strongly agree that they are sure about a given income selling their artworks. Of course their reliance on other sources of income (table seven) allow them to entertain such a luxury. Question 5) Artists say they are not conformist. About 78% of the respondents go against the “beaten” path and say they are not hesitant to be different from other artists in exhibiting their artwork. This behavior, too, is an indication of accepting risk and being comfortable with non- conformity. Innovative and risk-taking individuals and organizations are more adjusted to a range of possibilities than to one specific framework, or to a set of proper procedures and fixed or ideal goals. In another place (table four, question 3) artists reiterate (74% of the respondents) that they are “free of influences and suggestions of friends or relatives”. Said it differently, they just do whatever pleases them (at least in their art life) regardless of how they may be judged by others.

Have these individuals learned “techniques” of risk taking or do they possess certain innate quality? A number of studies (Jackson, Hourany, and Vidmar 1972 as well as Plax and Rosenfeld, 1976) maintain that risk taking is pre-dispositional rather than situational, meaning humans are born rather than learn to be risk taker. Some indicators of this quality are when a person “walks up to a total stranger and strikes up a conversation” (asked in question 4) or when a person is not hesitant to be different from others (asked in question 5). Of course as Highhouse and Yuce (1996) state, striking a conversation with a stranger should have been “framed” as an opportunity rather than a threat. It is what we may label “calculated” risk, the type that as Zuckerman (2000) explains it “is not the main point of sensation-seeking behavior; it is merely the price such people pay for certain kinds of activities that satisfy their need for novelty, change and excitement. In fact, many of the things that high sensation-seekers do are not at all risky.” Risk-taking artists through experimentation in form and/or content, blur the boundaries of the traditional disciplines. “For the creative artist, no matter their medium, their stock and trade is an idea that is manifested in their artistic expression of choice. Throw in a bit of innovation and risk-taking and the end product is an original, one-of-a-kind piece of art” (The Business of Art). “A variety of ‘ordinary’ artists and artist craft-workers living in Wales, when interviewed often describe themselves as ‘risk-takers’ and as having no choice because ‘called’ or compelled by their nature, to pursue art. Discourses of ‘calling’ and of ‘risk-taking’ are functional for the stability of art worlds which depends on people able to tolerate ‘failure’. Presenting oneself as risk-taking, or called, imply moral rhetoric which legitimate actions and make claim to virtue. Following a calling implies willingness to make sacrifices. Risk-taking’s moral virtue lies in the willingness to sacrifice what is actually valued in order to achieve higher ends. Interview material suggests that what is likely to be given up to pursue an artistic career - high income and economic security – is not highly valued. Art is risky because of uncertainty about being able to satisfy some criteria of artistic success, and the ambiguity of the criteria themselves. Artistic careers are distinctive as much for the essentially contested nature of judgments of artistic success, as for risk-taking per se. Artists risk not only failure, but uncertainty over whether they have actually succeeded nor not.” (Parker and Stanworth, 2003)

### *Internal locus of control*

Having an internal locus of control can also be referred to as "self-agency", "persona; control", and "self-determination". According to Julian Rotter (1966) who originally developed the concept, locus of control refers to an individual's perception about the underlying causes of events in his/her life. Or, more simply: Do you believe that your destiny is controlled by yourself or by external forces (such as fate, god, or powerful others)?

The full name Rotter gave the concept was Locus of Control of Reinforcement. In giving it this name, Rotter was bridging behavioral and cognitive psychology. Rotter's view was that behavior is largely guided by "reinforcements" (rewards and punishments) and that through contingencies such as rewards and punishments individuals come to hold beliefs about what causes their actions. These beliefs, in turn, guide what kinds of attitudes and behaviors people adopt. Thus, locus of control is conceptualized as referring to a one-dimensional continuum that ranges from external to internal. External locus of control is when an individual believes that his/her behavior is guided by fate, luck, or other external circumstances that are beyond his/her control. Internal locus of control applies to an individual who believes his/her personal decisions and efforts are responsible for his/her behavior. (Mamlin, Harris, & Case, 2001)

Questions presented to the participating artists in this survey aimed at finding out if artists indeed believe in themselves. As we would see in table four, artists who participated in this survey are "internals". In response to the first question, 87.09 % of respondents considered the statement: "After I experience success in a task, I raise my expectations" as very accurate or accurate. Simons et al. (1987) following their own research state that internals are those who after experiencing success in a task are likely to raise their behavioral goals. In contrast, externals are more likely to lower their goals.

In response to question 2, only 29.84 % of respondents found the statement to be either very accurate or accurate. What does the question ask? Who is internal? Is it a person that after a failure lowers or raises his or her expectation? Again, Simon, et al. respond: Internals, aware of their own strengths and weaknesses, realistically lower their expectations, and do not blame outside forces in their failure. In contrast, externals raise their expectations. Our participating artists are internals because they do not raise their expectations.

According to Gale Encyclopedia of Psychology, people with an internal locus of control are inclined to take responsibility for their actions, are not easily influenced by the opinion of others, and tend to do better at tasks when they can work at their own pace. Questions 3 and 4 in table four exactly asked the same questions. A large majority (74.19%) of respondents found the question three very accurate or accurate, hence stating that they are internals. And even a much bigger (94.33%) of respondents believed that the question is very accurate or accurate. Thus, both groups can be considered as internals. Psychological research has found that people with a more internal locus of control seem to be better off, for example, they tend to be more achievement oriented and to get better-paid jobs. However, thought regarding causality is

needed here too. Do circumstantial conditions (such as privilege and disadvantage) cause locus of control beliefs or do the beliefs cause the situation? Sometimes locus of control is seen as a stable, underlying personality construct, but this may be misleading, since the theory and research indicate that locus of control is largely learned. There is evidence that, at least to some extent, locus of control is a response to circumstances (Hans, 2000; Hattie, et al., 1997). However, it is important to warn against slipping in the overly simplistic view notion that internal is good and external is bad. There are important details to be considered. For example: Internals can be psychologically unhealthy and unstable (and on the opposite, externals can lead easy-going, relaxed, happy lives). An internal orientation usually needs to be matched by competence, self-efficacy and opportunity so that the person is able to successfully experience the sense of personal control and responsibility. Overly internal people who lack competence, efficacy and opportunity can become neurotic, anxious and depressed. In other words, internals need to have a realistic sense of their circle of influence in order to experience 'success' (Hans; Hattie).

**Table 4: Locus Of Control**

Question	Very accurate (%)	Moderately accurate (%)	Moderately inaccurate (%)	Very inaccurate (%)	No response (%)	Mean	Standard deviation
1-After I experience success in a task, I raise my expectations	35.48	51.61	10.48	1.61	0.81	1.77	0.71
2-After failing a task, I re-evaluate my future performances and lower my expectations of success	6.45	23.39	43.55	25.00	1.61	2.84	0.93
3-In preparation to work on a certain project, I am essentially free of influences and suggestions of others (friends, relatives, etc.)	33.06	41.13	20.16	4.84	0.81	1.95	0.87
4-I tend to do better at tasks when I work at my own pace	67.74	26.61	3.23	2.42	0.0	1.40	0.67
Questions are based on J.B. Rotter (1966) Generalized expectancies for internal versus external control of reinforcement, Psychological Monographs, 80, (1, Whole No. 609)							

### Who are the artists?

In this part we will observe and explore the artists' demographics, their sources of income, the extent to which they are involved with the local community, and their areas of specialty.

### *Demographics*

Of the total respondents (124), 31 individuals (25%) were male and 93 persons (75%) were female. Only six individuals (5%) reported that they were born outside the United States. With the exception of 1%, (no response) 65 % of respondents (81 persons) indicated that they had no formal education in any field of art. The remaining 35 % of respondents (43 persons) mentioned that they have had formal art education.

Level of Education	%
High-school	22
Associate degree/some college	17
Bachelor degree	30
Master degree	26
Ph. D.	2
No response	3

In regard to education in general, table five presents relevant information. In this survey, we are facing a highly educated group of artists (75%) with at least some college education through the highest educational degree (Ph.D.). The respondents to this survey constitute a substantially more educated group of artists (58%) when compared with a national figure (40% with graduate degrees) as indicated by Report 37 (2007).

This survey revealed some other interesting information: Artists, at least in the area of the study, are rather aged.

As it appears in table six, 50 % of the respondents are at least 55 years old. The answer to a corresponding question regarding the number of years involved in artistic activities (assuming each of them started at the age of 15) divulges that on average, each person (out of 114 who responded to this question) has had 23 years of artistic activity. The range is between 3 and 70 years. However, the income earned by these artists has nothing to do with their either education (correlation coefficient= .077) or age (correlation coefficient= 0.03). Also, correlation coefficient for gender and education was -0.072, for income and art education was 0.032, and for income and years in art practice was -0.023. The Report 37 indicates that females earned less than males in all sectors between 1970 and 1990. Our finding, however, does not support this statement (correlation coefficient= -.031).

### *Sources of income*

It has been known for several decades that artists as a group often hold multiple jobs throughout their careers, either by “moonlighting” or by switching among several short-term jobs. Artistic jobs can be, and often are, held as second jobs. In a study conducted by Wassall

and Alper (1985) only 24 % of the artists surveyed worked exclusively in their art-related professions during 1981. Ruttenburg, Friedman, Kilgallon, and Associates found that 61 % of performing artists held jobs in 1976 not in their primary professions. Also, Kingston and Cole in their survey of authors found that 70 % had earnings from work outside their profession. In addition, Netzer and Parker reported that 80 % of choreographers surveyed in their study held second (or additional) jobs in 1989. (Report 40) Results from a supplement to the May 2001 Current Population Survey reveal that “more than one in three moonlighters worked multiple jobs in order to earn extra money, a category that could include saving for the future or getting extra money to buy something special. An additional 27.8 % moonlighted in order to meet current expenses or pay off debt. Among the other common reasons for working multiple jobs, 17.4 % stated enjoyment of a second job, and 4.6 % indicated their desire to build a business or gain experience in a different job.”

**Table 6: Age of the Survey Participants (N=124)**

Year born	Age (measured between year born and year 2005)	N	%
Up to 1940	At least 65	23	19
1941-1950	At least 55	38	31
1951-1960	At least 45	35	28
1961-1970	At least 35	14	11
1971-1980	At least 25	8	6
1981-	At least 24	1	1
No response	-	5	4

Table seven shows the primary sources of income for the respondents to this study. In this research, I arrived at similar findings. Out of a total 124 respondents, only 41 individuals (33%) indicated that they were full-time artists. The remainder- 80 persons or 65%- had other jobs. Two percent had not responded to this question. In their second jobs, artists worked as teacher, university faculty, secretary, baker, kitchen worker, librarian, office manager, hospital technician, house-cleaner, and exterior painter. Among the full-time artists, many mentioned they can afford being artists because they have pension funds, social security benefits, or their spouse's support.

Another question of the survey was about the total income (of all sources) of artists in the previous year (2004). There were some quite unusual levels of income (as one artist/banker reported \$120,000). The average income of all of those who responded (67 individuals, 54% of the total respondents) was \$ 36, 240 and median income was \$ 35,000. If we exclude non-artists from data, we would notice a range of income between \$9,000 and \$100,000. This gives us an average of \$38,500, and a median of \$44,000. These figures do not support the metaphorical “starving” artists, at least where the average annual income of the residents is about \$22,000.

**Table 7: Primary Source of Income of the Artists (N=124)**

Source	N	%
Other jobs	52	42
Pension/retirement	29	23
Spouse	15	12
Other/not-stated	15	12
Sales of artwork	12	10
No response	1	1

Parsons (2005) believes “Poverty is always going to be a problem for artists. Unless you’re in an area that pays very well, like digital media, or you can virtually manufacture your work, like some jewelers, it’s just the way things are. But that doesn’t mean you can’t control your finances. If you know that your future income will be patchy and sporadic you can plan around it.” This and other similar statements speak about a gloomy world of starving artist who is unfamiliar with the fundamentals of managing a small enterprise. The “starving artist” syndrome according to a humorous article by an art consultant is due to the oversight of artists themselves. Kathy Gulrich (2005) says: “Are we (artists) a crazy bunch, or what? We take some art classes (maybe even earn an art degree or two). We do a bunch of paintings (or weavings, or photographs, or sculptures, or...). Then one morning, we wake up and figure it's time to support ourselves with our art. Yep, now we'd like to earn, say, \$40-50,000 a year selling our work. No, we haven't actually sold any paintings yet. Well, maybe we've sold several (or even several thousand dollars worth). We don't have any financial resources to back us up. We haven't figured out how - or where - to market our work. No gallery contracts. Business plan? What's that? But we're ready to earn a living from our art.”

FitzGerald (1997) advances a totally opposing view in which he recites the stories of two very successful artists, Picasso and Matisse. “In my work on Picasso, I found that from the beginning of his career a desire for financial gain and public acclaim led him to engage in promotional activities we generally associate with commerce - soliciting dealers for exhibits and purchases, enticing critics to write laudatory reviews, and flattering collectors into acquiring his work. Furthermore, he carried these concerns into his studio, and they played a role in the complex exchange of ideas that drove his many styles and subjects.” FitzGerald adds, “In the twentieth century, Matisse proved more skillful than Picasso, at least initially. The contract he signed with Galerie Bernheim-Jeune in 1909 was remarkable not only because it made him one of the first artists of his generation to secure representation, but also because it explicitly included the artist in the business of promotion. Most contracts were simple. They specified a price the gallery would pay the artist for each painting or drawing based on its size and left the artist uninvolved in the process of selling the work. In this case, however, Matisse became a full partner in the commercial enterprise; his substantial role was recorded in the clauses of the agreement. Besides a base price for each work, Matisse was due 25 % of the profit obtained from each sale, thereby making him a party to speculation in his work. Nor was this financial



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investment merely passive. The contract acknowledged Matisse's active role as a salesman of his art, requiring him to split with the gallery profits from his private sales and to notify them of clients who had expressed an interest in particular pictures. Finally, it allowed him to accept commissions for portraits and "decorative works" without paying the gallery a fee."

### *Loners or Community Players*

Artists that participated in this survey are mostly loners. A substantial majority, 81 % of the total, indicated that they work alone. Only 6 % had partners, and 4 % worked as contract workers. Only 1% of 124 respondents said that they worked for other artists. The remaining 8 % chose not to respond to the question. This information could be corroborated with another question since only ten of the entire respondents indicated having another person working for them.

If artists are mostly loners, do they have other ways of connecting to the community? In order to discover whether artists consider themselves part of the community and are engaged in society, they were asked if they belong to a professional art association or organization. Sixty nine percent of the survey participants (85 persons) indicated that they were members of an art association. Excluding 3 % non-response, the remaining 35 individuals (28%) did not belong to any professional-related organization.

How do we reconcile the finding that artists who work alone are also members of the professional associations and that the majority of them are engaged in one way or other in the larger community where they live? I suggest the following explanation: Artists, being creative type of individuals, prefer to work alone and free from "obstructions." But, in need of selling their wares, they find it useful and even necessary to be part of the community. However, even in this case, as we can see in table eight (first question as compared to questions 2 and 3) they exhibit lesser desire to be in contact with certain professions -lawyers, bankers, and marketing experts, but are more willing to reach out to their closer social circles, and even more, to the general public who may be their clients and potential customers. In response to another question, artists demonstrate their distance from the "professional" community. Twenty seven percent of the total 124 respondents said that they have established a line of credit with a supplier, whereas 60 % answered no to this question. The remaining 13 % did not respond to the question.

Questions 4 and 5 in table eight reflect the extent to which artists are connected to a network. While 88.71 % and 71.75 % of the respondents to questions four and two, respectively, indicated that they seek assistance from close friends, and have received most helpful advice from those that they have known for at least a year, only 12.9 % respondents in their answer to question five said that they have received most helpful advice from rather strangers. Do birds of a feather really flock together? According to the old proverb, people prefer being with people who are like themselves. They like to be with people who share their attitudes, values, and outlook on life. Sociologists Miller McPherson, et al (2001) reviewed the research literature on

"homophily," which they defined as "the principle that a contact between similar people occurs at a higher rate than among dissimilar people" and expressed that "patterns of homophily are remarkably robust" in behaviors ranging from very personal relationships, such as marriage, to less intimate ones, such as acquaintanceships.

**Table 8: The Extent of Networking of Artists**

Question	Very accurate (%)	Moderately accurate (%)	Moderately inaccurate (%)	Very inaccurate (%)	No response (%)	Mean	Standard deviation
1-I have contact with the business community to acquire legal, financial, and marketing information	16.94	39.52	18.55	23.99	1.61	2.45	1.07
2-I seek assistance from friends and associates	15.32	56.45	2.16	5.65	2.42	2.11	0.818
3-I have established networks with the general local community	30.65	45.97	15.32	6.45	1.61	1.94	0.886
4-My most helpful advice givers are those that I have known for at least a year. These are the people with whom I have had close working relationship and frequent communication, and care about me.	37.90	50.81	9.68	1.61	0.0	1.75	0.69
5-My most helpful advice givers are my recent-less than a few months- acquaintances. Obviously, the time has been too short for meeting the three criteria: close working relationship, frequent communication, and care.	4.84	8.06	40.32	43.55	3.23	3.16	0.99
6- I like parties where I know most of the people more than ones where all or most of the people are complete strangers.	29.84	41.94	22.58	3.23	2.41	1.94	0.87

### *Areas of Specialty*

Table nine provides information about the areas of specialty of the artists in this survey. We observe that a large percentage (67%) of the artists are engaged in painting and crafts. This is far higher than the figure (13%) indicated in Report 37. Although that finding refers to 1990, still the difference is significant. In regard to whether artists active in painting and crafts have been able to increase their numbers from a low percentage to a very significant group of the total population of artists or whether the artists in this survey constitute an abnormality, I cannot offer an explanation.

Area of specialty	N	%
Painting (all types) and drawing	40	32
Photography	14	11
Music	7	6
Fiber arts	6	5
Sculpture	6	5
Woodworking	6	5
Ceramics	5	5
Jewelry	6	5
Textile	3	2
Theatre	3	2
Basket weaving	2	2
Quilting	2	2
Sewing	3	2
Wool rug weaving	2	2
All other areas each with 1% of the total	19	5

## CONCLUSIONS

In this study three hypotheses were tested: If artists are to be viewed as entrepreneur, they should 1) manifest a considerable degree of tolerance for ambiguity, 2) be risk-taker, and 3) have internal locus of control. The survey gives us the following results:

1- Artists have a high degree of tolerance for ambiguity: Respondents to this survey indicated that when facing complex situations, they are comfortable and able to make decisions with little information, also it is more fun to tackle a complicated problem than to solve a simple one. In addition, the majority of the respondents mentioned that people who fit their lives to a schedule probably miss most of the joy of living. These responses align well with Budner's definition of tolerance for ambiguity as "the propensity to view situations without clear outcomes as attractive rather than threatening." Creative people – artists- resist rigid, prescribed approaches and their creations go opposed to the "conventional" wisdom.

2- Artists are risk-takers: In Zuckerman words, risk-taking "is not the main point of sensation-seeking behavior; it is merely the price such people pay for certain kinds of activities that satisfy their need for novelty, change and excitement. In fact, many of the things that high sensation-seekers do are not at all risky." In other words, artists very much like other entrepreneurs take calculated risks. Or in Hofstrand's words (2010) the evidence suggests that entrepreneurs "are risk-averse...successful entrepreneurs attempt to minimize their risk exposure whenever appropriate, by carefully assessing the risk/reward relationship of their actions. Risk is assumed only when the opportunity for reward is sufficiently large enough to warrant the risk."

3- Artists have an internal locus of control: Entrepreneurs tend to have a strong internal locus of control. They believe their future is determined by the choices they make. Gilad theorizes that the influence of locus of control on ability to see opportunities in the environment explains the influence of locus of control on entrepreneurs. The research shows that this perceptual alertness leads to spontaneous learning, defined as “. . . the discovery of the existence of an opportunity” (Gilad 1982, 134). In essence, Gilad shows that internals are alert, discover opportunities, and scrutinize their environment to find information needed to formulate the optimal approach to developing those opportunities.

In addition, artists despite having a tendency toward acting as loners, are connected to a network of the business and general community, and seek assistance from friends and associates. Findings of Hofstrand in regard to entrepreneurs in general are the same. He maintains, “Successful entrepreneurs seek outside help to supplement their skills, knowledge and ability. Through their enthusiasm they are able to attract key investors, partners, creditors and employees.”

### **SUMMARY**

The findings of this study are based on the responses of 124 artists, out of 550, who completed and returned a questioner consisting of several questions. Out of the respondents, 25% were female and the rest were male. Sixty five percent of the respondents indicated that they had no formal education in any field of art. Half of the artists, as far as this research in concerned, were found to be older than 55 years of age. How do artists financially support themselves? Near 65% said they had other sources of income and only one third of the respondents indicated that they are full-time artists.

The purpose of this research paper was to examine the validity of the assumption that artists and entrepreneurs, despite their apparent differences, have some fundamental traits in common. The three traits selected for this study -tolerance for ambiguity, risk-taking, and internal locus of control- are among the most agreed upon characteristics attributed to the entrepreneurs. This research found that artists are indeed entrepreneur. Concerning tolerance for ambiguity, they are comfortable in facing complex situations, believe that most decisions are made with little information, and find it interesting when confront “unscheduled” situations. In regard to risk taking – perceived as an individual’s orientation toward taking chances in a decision making situation- artists take chances in majority of the cases to make a decision about creating an artwork before there is a potential buyer is found. At last, artists have internal locus of control, meaning they believe in themselves and pronounce their success is mostly a product of their own decisions and acts.

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# **DISPOSITIONAL ANTECEDENTS, JOB CORRELATES AND PERFORMANCE OUTCOMES OF ENTREPRENEURS' RISK TAKING**

**Ayala M. Pines, Ben-Gurion University  
Dov Dvir, Ben-Gurion University  
Arik Sadeh, Holon Institute of Technology**

## **ABSTRACT**

*The study is fourth in a series of studies on the risk taking propensity of entrepreneurs, a topic that generated great controversy in the scientific literature. On a macro cultural level, the first study demonstrated the role of culture in promoting values such as entrepreneurship and risk taking. On a mezzo occupational level, the second study demonstrated the differences between high-tech entrepreneurs and managers in traits such as risk taking. On a micro individual level the third study demonstrated the influences of childhood experiences of entrepreneurs on the development of personality traits such as risk taking.*

*Based on Person-Job fit theory and on Trait Activation theory, the current study demonstrated the relationship between certain dispositional antecedents (personality dimensions), occupational correlates (novelty and technological uncertainty of ventures) and performance consequences (certain aspects of venture success) and high-tech entrepreneurs' risk taking tendencies. The theoretical and practical implications of these findings are discussed.*

## **INTRODUCTION**

Interest in entrepreneurship has never been higher than it is at the beginning of the 21<sup>st</sup> century (Zimmerer & Scarborough, 2001). Entrepreneurs are "the makers of new worlds" (Czarniawaka & Wolff, 1991), "innovators and a catalysts of change who continuously do things that have not been done before and do not fit established societal patterns" (Schumpeter 1934; 1965), who "identify, asses, evaluate, manage and transfer risk" (Deakins, 1999). Researchers the world over have turned their attention to the study of entrepreneurs, coming from different theoretical perspectives and using different methodologies. The result has been a fast growing body of research and an acknowledgement of the fact that entrepreneurship is a very complex and heterogeneous phenomenon (Cunningham & Lischeron, 1991).

There have been several attempts to categorize studies on entrepreneurs. Deakins (1999), for example, noted that most literature on entrepreneurs has stemmed from three main sources: a. an economic approach that stresses the role of entrepreneurs in economic development; b. a social-environment approach that stresses the influence of the social and cultural environment on

entrepreneurs; c. a psychological approach that focuses on the personality traits of entrepreneurs. While the economic and social environment approaches focus, at the macro level, on economies and societies as units of analysis, the psychological approach focuses, at the micro level, on the individual as the unit of analysis (Korunka, Frank, Luegler & Mugler 2003) and on personality traits associated with entrepreneurship such as need for achievement, internal locus of control, confidence and risk taking (Begley & Boyd, 1987; Brockhaus & Horwitz, 1986; Bygrave, 1989). Carland, Carland and Stewart (1996) suggested that the entrepreneurial psyche is a *gestalt* of personality factors such as need for achievement, preference for innovation, and propensity for risk taking, with varying degrees of the traits combined in an individual entrepreneur. It is this gestalt which produces differences in entrepreneurial behavior (Lockwood, Teasley, Carland and Carland, 2006).

Based on Person-Job fit theory and on Trait Activation theory, this paper demonstrates the relationship between certain dispositional antecedents (personality dimensions), occupational correlates (novelty and technological uncertainty of ventures) and performance consequences (venture success measures) and high-tech entrepreneurs' risk taking tendencies.

## LITERATURE REVIEW

Findings have been mixed regarding the psychology of entrepreneurs (Deakins, 1999; Gelderen, 2000; Watson, Ponthieu & Doster, 1995). So much so, in fact, that it has been argued that the trait approach has failed in the case of entrepreneurs (Gartner, 1988) and that the entrepreneurial personality is nothing but a myth (Shaver, 1995). However, in recent years research on the entrepreneurial personality has re-emerged as an important topic of investigation (Rauch & Frese, 2000) with a leading entrepreneurship scholar noting that a psychological approach is necessary to understand entrepreneurship (Frese, 2009).

One of the personality traits that generated the greatest research attention and controversy has been the risk taking propensity of entrepreneurs. Recently, the literature on entrepreneurs' risky decision-making has evolved dramatically (Brockman, Becherer, and Finch, 2006).

Risk-taking is defined as the perceived probability of receiving rewards associated with the success of a situation that is required by individuals before they will subject themselves to the consequences associated with failure (Brockhaus, 1980). Many studies of entrepreneurs' personality included risk-taking (e.g. Carland et al., 1996; Cromie, 2000; Cunningham & Lischeron, 1991; Ho & Koh, 1992; Kilby & Koh, 1996; Stewart & Roth, 2001), portraying entrepreneurs as risk-takers who expect profits as reward for this risk-bearing and whose risk-taking leads to better performance outcomes (Hai & See, 1997).

A different conclusion regarding entrepreneurs' propensity for risk taking was reached by Brockhaus (1980), who compared the risk-taking of entrepreneurs who started new businesses to recently promoted managers and with normative data. His findings suggested that risk-taking may not be a distinguishing characteristic of entrepreneurs, thus refuting assumptions based on



non-comparative studies of entrepreneurs. It should be noted that omitting business ownership as a designation of entrepreneurship permits the inclusion of corporate entrepreneurs and the exclusion of risk taking (Carland, Hoy, Boulton, & Carland, 1984).

The opposite conclusion regarding the risk-taking of entrepreneurs and managers was reached by Stewart and Roth (2001) who used a meta-analysis of studies concerning risk propensity of entrepreneurs and managers and showed that the risk propensity of entrepreneurs was greater than that of managers. These differences were larger for entrepreneurs whose primary goal was venture growth than for those whose focus was on producing family income.

In response to this conclusion, Miner and Raju (2004) cited data from 14 studies not included in the Stewart and Roth (2001) analysis, that added up to a conclusion, that was supported by a new meta-analysis, that entrepreneurs (especially those with a growth orientation) are more risk avoidant.

In response to Miner and Raju's (2004) criticism of their work, Stewart and Roth (2004) identified and examined several methodological problems associated with their critics' work. When these methodological issues were addressed, a third meta-analysis indicated an overall conclusion consistent with that of Stewart and Roth (2001).

Earlier studies of entrepreneurs have suggested that entrepreneurs prefer to take moderate risks in situations where they have some degree of control or skill in realizing a profit and prefer to avoid situations which involve either extremes of risk or certainty (McClelland, 1961; McClelland & Winters, 1969).

These and other contradictory findings, make it difficult to argue against Stewart and Roth's (2001) conclusion that the role of risk propensity in entrepreneurship remains unresolved.

The current study is the fourth in a series of studies on Israeli high-tech entrepreneurs that addressed the controversy regarding the risk taking propensity of entrepreneurs from three levels of analysis: a macro cultural level that notes the role of culture in promoting values such as entrepreneurship and risk taking, a mezzo occupational level that notes the role of occupational processes of attraction, selection and attrition in the development of values such as entrepreneurship and risk taking, and a micro individual level that notes the influence of childhood experiences on the development of traits such as entrepreneurship and risk taking.

From a macro cross-cultural perspective, Pines, Levy, Utasi and Hill, (2005) examined the hypothesis that in a country where entrepreneurs are viewed as cultural heroes people will exhibit greater risk taking tendencies. The study included MBA students in Israel, the USA and Hungary who were asked to rate the risk they were willing to take in leaving a secure job to join a start-up. Results showed that Israelis, who viewed high-tech entrepreneurs as cultural heroes and identified with them, exhibited greater readiness to take the risk and join a start-up.

From a mezzo occupational perspective, Pines, Sadeh, Dvir and Yanai, (2002) examined the hypothesis that entrepreneurs express greater risk taking tendencies than managers in the same industry. In the study, Israeli high-tech entrepreneurs and managers were compared regarding 14 personality traits. Some traits came from the literature on entrepreneurs (e.g., risk

taking, love of challenges), and some came from the literature on managers (e.g., love of management, realism). Findings revealed a number of similarities as well as differences. One of the greatest differences was in entrepreneurs' greater risk taking.

These findings can be explained by Ben Schneider's (1987; 2001) Attraction, Selection, Attrition (ASA) model. According to the ASA model, individuals who are attracted to an entrepreneurial career, who go through the selection process that screens out those who don't have the needed traits and who acquire the education, skills and experience needed for establishing a venture, end up being rather similar

From a micro individual perspective, Pines, Dvir and Sadeh (2004) explored the childhood influences and experiences that effected the development and characteristics of highly successful Israeli high-tech entrepreneurs. Twenty five such entrepreneurs described experiences in their childhood that had an effect on their entrepreneurial career including their propensity for risk taking, noting especially their formative experiences in the Israeli army where their entrepreneurial tendencies have been encouraged and supported.

The entrepreneurs rated themselves on the 14 entrepreneurial and managerial traits used in the second study. Factor analysis revealed three factors that together explained 62% of the variance. The second factor loaded highest (.83) on risk taking. Quotes from the interviews also pointed to the important role played by risk taking and the pride associated with it:

*"I think it's the thing about risk, risk taking. And I'm not a gambler, I don't like gambling, but many people sit and take a salary and are afraid to leave and do something on their own, I pity them."*

## **METHODOLOGICAL BACKGROUND**

The current study, examined the dispositional antecedents of Israeli high-tech entrepreneurs' risk-taking (individual characteristics of the entrepreneur), job opportunities/demands for risk-taking (venture characteristics that allow for or require risk taking), and the performance outcomes of risk taking (venture success).

The study is based on two theoretical perspectives, that of Person-Job (P-J) Fit (e.g., Caldwell & O'Reilly, 1990; Edwards, 1991; Sekiguchi, 2004; Werbel & Gulliland, 1999) and that of Trait Activation theory (Tett & Burnett, 2003; Tett & Guterman, 2000).

Person-Job Fit is defined as the match between the abilities of a person and the demands of a job, or the attributes of a person and the attributes of a job (e.g., Edwards, 1991; Sekiguchi, 2004). There is considerable evidence that a high level of P-J fit produces a number of positive outcomes including job satisfaction, low job stress, motivation, performance, attendance and retention (e.g., Caldwell & O'Reilly, 1990; Edwards, 1991).

Following a similar line of reasoning, Trait Activation theory emphasizes person-situation interactions to explain behavior in relation to trait-relevant cues in the situation. The

theory predicts that people will enjoy working in situations that offer these cues for trait expression, and will also perform well in them, because extrinsic rewards of the job match up with their intrinsic motivation to express certain traits (Tett & Burnett, 2003; Tett & Guterman, 2000).

Based on P-J Fit theory and its notion that people are attracted to and tend to be more successful in jobs in which they find such a fit and on Trait Activation theory's assumption that people enjoy working in situations that offer them cues for trait expression and perform well in these situations, it was hypothesized that risk taking of entrepreneurs will be related to psychological antecedents associated with risk taking, to job correlates that enable the expression of risk taking, and to performance outcomes that will be manifested in venture success. These predictions were examined in a study of risk taking of Israeli high-tech entrepreneurs, their psychological antecedents, their ventures and their ventures' success.

### **The psychological antecedents of the risk taking propensity of entrepreneurs**

In addition to the entrepreneurial and managerial traits used in the previous studies in the series (Pines et al., 2002; 2004) the study expanded the examination of the psychological antecedents of risk taking to include three overarching personality dimensions that seemed relevant to risk taking: Regulatory focus, Attachment styles and Openness to experiences.

#### *Entrepreneurial and Managerial traits*

It was predicted that risk taking will be correlated with the entrepreneurial traits (e.g., initiative and love of challenge) but not with the managerial traits (e.g., realism and need for control).

#### *Regulatory focus*

Higgins (1997; 1998) saw regulatory focus as an integral part of one's personality. He believed that people have two basic self-regulation systems: promotion and prevention. People with a regulatory focus of promotion are motivated by the need for growth, autonomy, achievement of goals and aspirations, and self-actualization. They have a tendency to take risks, prefer less conservative options representing change, use more creative strategies (Lieberman, Idso, Camacho & Higgins, 1999) and are sensitive to rewards or benefits that might be withdrawn as a result of poor execution of an assignment (Higgins, 2000). People with a regulatory focus of prevention are motivated by the need for security and belonging, commitment and responsibility (Higgins, 1999). They behave in a cautious and carefully considered manner, avoiding any unnecessary risks. They prefer stability, security and conservatism over change and risk taking (Lieberman, et al., 1999). When they undertake an

assignment, they are sensitive to punishments that might result from poor performance (Higgins, 2000). It was predicted that promotion focus will be positively correlated with risk taking tendencies, whereas prevention focus will be negatively correlated with risk taking.

### *Attachment Styles*

Based on Bowlby's (1969, 1973, 1988) attachment theory, positive attachment experiences in the early childhood build working models of attachment that function as inner structures that guide people in assessing and coping with the world. Secure attachment reflects general self-confidence. According to Bowlby (1969) and many recent studies (e.g., Mikulincer & Shaver, 2007; Pines, 2004), securely attached people tend to have positive appraisal of stressful situations and they cope with them in constructive ways. Insecurely attached people (anxious ambivalent or avoidant) tend to have negative appraisal of stressful situation and do not cope well (over-reacting in the case of the anxious-ambivalent and avoiding or withdrawing in the case of the avoidant). It was predicted that secure attachment will be positively correlated with risk taking whereas insecure attachment (avoidant or anxious/ambivalent) will be negatively correlated with risk taking.

### *Openness to Experiences*

One of the Five Factor Model of Personality (Costa & McCrae, 1992), a model based on the notion that personality can be described and measured using five basic and broad dimensions that all people can be rated on. Openness to experience is one of these dimensions. A person high on openness to experiences has broad interests, is imaginative, curious, creative, original, artistic and adventurous. A person low on openness is conventional, avoids the unfamiliar, is inartistic and lacks imagination. It was predicted that openness to experiences will be positively correlated with risk taking.

### *Venture correlates of risk taking propensity of entrepreneurs*

Shenhar and Dvir (2007) developed a four dimensional model for project classification that includes: Novelty, Technological uncertainty, Complexity and Pace (NTCP). Since new ventures, after securing the financial resources needed for developing a new product/service, are essentially projects, the NTCP framework was used. Of the four dimensions, Novelty and Technology are the main sources of uncertainty in new ventures. Novelty is determined by how new the product is to its potential users. Technological uncertainty is determined by the existence within the organization of knowledge and resources required to design and manufacture the product. Both dimensions were predicted to be correlated with the entrepreneur's risk taking.

### *Dimension of venture success*

Shenhar, Dvir, Levi and Maltz's (2001) suggested a four dimensional framework for assessing project success that includes: *Efficiency* (did the project meet schedule and budget goals); *Impact on customers* (from the use of the end products); *Business success* (meeting economic and market goals); and *Preparing for the future* (creating new technological and operational infrastructure and market opportunities). Two of these (business success and preparing for the future) were predicted to positively correlate with risk taking.

## **HYPOTHESES**

The following 3 hypotheses were tested in the study:

- I. *Entrepreneurs' risk taking propensity will correlate positively with entrepreneurial traits but not with managerial traits. It will also correlate with the three overarching psychological antecedent: positive correlation with regulatory focus of promotion and negative correlation with regulatory focus of prevention; positive correlation with secure attachment and negative correlation with insecure attachments; and positive correlation with openness to experiences.*
- II. *Entrepreneurs' propensity for risk taking will correlate positively with the risk related aspects of the new venture: novelty and technological uncertainty.*
- III. *Entrepreneurs' propensity for risk taking will be correlated with venture success, especially as reflected in reaching economic goals and market and product line potential.*

## **METHOD**

### **Participants**

Eighty-eight (88) Israeli entrepreneurs from 77 new ventures. All ventures were in their early stages, ranging from one to five years from initiation. The ventures were mainly R&D oriented in internet applications, communication, biotechnology, agriculture, space and aeronautics. Most of the ventures were independent and not part of a bigger organization, some were hosted in "incubators" which provided the necessary funding and infrastructure.

Of the 88 entrepreneurs, 89% were male and 11% were female. Their average age was 39.9 (SD 10.9) and they had an average of 16.7 years of education (SD 3.0).

### **Procedure**

The ventures were chosen by students studying for a degree in Management of Technology who were collecting data for their final project, using personal and family contacts with entrepreneurs, and based on those, using referrals from the interviewed entrepreneurs (snow-ball method). Due to the relatively small size of the Israeli industry, the sample can be viewed as representative of the population of new ventures in Israel.

### **Instrument**

A self report questionnaire that included three parts: (A) assessed different dimensions of the entrepreneurs' personality. (B) assessed the novelty and technological uncertainty of the new venture (C) assessed the ventures' success.

### **Entrepreneurs' personality**

The following personality dimensions were assessed:

*Entrepreneurial traits and managerial traits* (Pines et al., 2002; 2004)

These included 10 traits that were found to characterize successful high-tech entrepreneurs (e.g., love of challenge, initiative, optimism) (Alpha Cronbach = .79) and 5 traits that were found to characterize successful high-tech managers (e.g., love of management, need of control, realism) (Alpha Cronbach =.82). The 15 items were presented randomly and respondents were asked to rate the extent to which each trait characterized them personally on a 7-point scale ranging from 1=not at all to 7=definitely yes.

*Regulatory Focus*

Based on Schwartz's road map (1992) and Portrait Questionnaire (Schwartz, Lehmann & Roccas, 1999), a 15-item questionnaire was used: 6 items measured Promotion focus (e.g., "I look for adventures and love taking risks.") and 8 measured Prevention focus (e.g., "I think people should behave according to laws and rules even when no one is watching"). The items were presented randomly and the entrepreneurs were asked to rate to what extent each trait characterizes them on a 7-point scale.

### *Secure Attachment*

Based on the measure of attachment styles developed by Hazan and Shaver (1987), 3 short paragraphs were presented to respondents. For example, for the secure attachment style the paragraph included the sentence: "It's relatively easy for me to get close to people." For the avoidant attachment style it included the sentence: "I find it difficult to trust others completely or to be dependent on them" and for the Anxious/Ambivalent attachment style the sentence: "People are reluctant to get as close as I would like." Participants were asked to read the paragraphs and indicate to what extent each one described them on a 7-point scale. They received 3 scores: Secure, Avoidant and Anxious/Ambivalent.

### *Openness to Experiences*

Using Costa and McCrae's (1992), 7-item questionnaire was used: 6 items indicate high openness to experiences (e.g., interest in solving problems and complicated riddles) and 1 indicates low openness to experiences (preference for spending time in a familiar rather than unfamiliar environment). Participants rated their agreement with the statements on a 7-point scale and received one score.

### *Risk taking*

Was assessed using a single item measure: "How risk-taking do you tend to be?" rated on a 7-point scale ranging from 1=not at all to 7= very much. The use of a single item measure was demonstrated by Gardner, Cummings, Dunham and Pierce (1998) to be as good as using a multiple-item measure and by Nagy (2002) who suggested that using a single-item approach may not only take less time to complete and be less expensive but may contain more face validity, and may be more flexible than multiple-item scales.

## **Venture characteristics**

Information about the new ventures included the industry the venture is active in, when did it start operating, its products, the size of the team and the role of the entrepreneur. The ventures were rated, *independently*, regarding the level of Novelty and Technological uncertainty that existed when the new venture started its operation.

Novelty describes how new the idea being developed by the venture is to its potential users. It comprises three levels:

- 1 *A breakthrough* idea is completely new to the market; the customers do not know the purpose or how to use the new product or service. The markets to such products have to be developed as an integral part of the innovation process.
- 2 *Platform products* are new generations of existing products. The potential customer knows the purpose and use of the new product, but is not familiar with the new design and new features introduced into the new generation.
- 3 *Derivative products* provide only minor improvements to existing products that the customers do not have any difficulty in adopting and using.

Technological uncertainty is determined by the amount of required technologies available in-house for the development of the new product. It comprises four levels:

1. *Low-Tech* ventures have in-house all the required technologies.
2. *Medium-Tech* ventures have most of the required technologies in-house and the other technologies are easily available from outside sources.
3. *High-Tech* ventures use mostly new technologies that were developed elsewhere, but have not been used previously by the technical staff of the new venture.
4. *Super High-Tech* ventures are based on ideas that require the development of completely new core technologies.

Respondents classified their ventures along the two dimensions after reading detailed descriptions of each level of novelty and uncertainty. In addition, an objective assessment of the levels of novelty and technological uncertainty was made based on the description of the product. A combined measure of novelty and uncertainty was created.

### **Venture Success**

Following the framework developed by Shenhar et al. (2001) for measuring the success of projects, venture success was assessed along three dimensions: 1. Efficiency (meeting schedule and budget goals and meeting development milestones). 2. Business Results (meeting economic goals and market introduction goals). 3. Creating Future Opportunities (potential to create new operational and technological infrastructure and potential to create new markets and new product lines). The items were presented in three clusters (dimensions) and respondents were asked to rate the extent to which each goal was attained on a 7-point scale (from 1=not at all to 7=definitely yes). For example, to assess how well the venture met planned schedule they were asked "At this point of time, do venture activities meet the planned milestones?"

The reason for using a self-report measure of venture success was previous experience in collecting more objective data, such as return on investment or attained market share. Almost all



respondents refused to provide this quantitative data which forced reverting to the less objective method of success assessment, which has proven to be a rather reliable tool.

## RESULTS

Pearson correlations were computed between the entrepreneurs' risk taking and the entrepreneurial and managerial traits and the three general personality dimensions assumed to be antecedents of their risk taking; the novelty and uncertainty levels of their ventures and the success indicators of these ventures (see Table 1).

	MEAN	SD	r / RISK TAKING
<b>VENTURE CHARACTERISTICS</b>			
Uncertainty	2.26	.73	.34**
Novelty	1.66	.48	.20*
Uncertainty x Novelty	3.91	1.90	.28*
<b>ENTREPRENEURS' CHARACTERISTICS</b>			
<b>ENTREPRENEURIAL TRAITS</b>			
Loves challenges	6.07	1.18	.47***
Entrepreneurial	6.38	.83	.47***
Optimistic	5.58	1.41	.46***
Creative	6.02	1.07	.44***
Rebellious	4.82	1.63	.43***
Energetic	5.63	1.13	.32***
Independent	6.35	.88	.31***
Committed	6.23	1.09	.29**
A dreamer	4.95	1.63	.28**
Confident	5.80	.94	.26**
<b>MANAGERIAL TRAITS</b>			
Involved	5.93	1.12	.15
Realistic	5.72	1.11	.05
Persistent	5.88	1.11	-.05
Loves to manage	5.20	1.46	.02
Needs control	5.00	1.58	-.02
<b>ENTREPRENEUR FACTOR</b>	5.80	.69	.74***
<b>MANAGER FACTOR</b>	5.45	.91	.00
<b>DREAMER FACTOR</b>	5.49	1.05	.41**
<b>REGULATORY FOCUS</b>			
Promotion	5.23	1.27	.58***
Prevention	4.69	1.14	-.32**

<b>Table 1: Means, SDS and Pearson Correlations of Risk Taking with Venture Characteristics, Entrepreneurs' Personality Traits and Venture Success</b>			
	MEAN	SD	r / RISK TAKING
<b>ATTACHEMENT STYLE</b>			
Secure	5.28	1.79	.36**
Avoidant	2.76	1.72	-.30**
Anxious ambivalent	2.53	1.66	-.30**
<b>OPENNESS TO EXPERIENCES</b>	5.15	.66	.55***
<b>SUCCESS INDICATORS</b>			
Meeting budget goals	5.13	1.87	-.11
Meeting schedule goals	4.45	1.87	-.08
Economic goals	5.10	1.60	.22**
Market goals	5.03	1.64	.10
Market potential	5.03	2.08	.22**
Product potential	5.08	2.08	.22**

As predicted by Hypothesis 1, risk taking was positively and significantly correlated with all ten of the entrepreneurial traits including: love of challenge, initiative, optimism, creativity, rebelliousness, energy, commitment, being a dreamer, confidence and independence. It was not correlated with any of the 5 managerial traits: love to manage, need control, persistence, involvement and realism.

A factor analysis of all 15 traits revealed three factors that together explained 48% of the variance. The first factor, Entrepreneur, explained 25% of the variance and loaded highest on: initiative (.85), love of challenge (.80) and creativity (.66). The second factor, Manager, explained 14% of the variance and loaded highest on loves of management (.73), need for control (.67) and realism (.63). The third factor, Dreamer, explained 9% of the variance and loaded highest on being a dreamer (.85) optimism (.64) and involvement (.64) (see Table 2).

The Entrepreneur factor correlated highly with risk taking ( $r=.74$ ). The Dreamer factor also correlated with risk taking, albeit with a lower correlation ( $r=.41$ ) The Manager factor had no correlation with risk taking (.00).

Risk taking correlated significantly with all three general personality dimensions. It correlated with regulatory focus: positively with promotion and negatively with prevention. It correlated with attachment styles: positively with secure attachment and negatively with both insecure attachments. And it correlated positively with openness to experiences.

In short, the entrepreneurial traits and all personality dimensions assumed to be dispositional antecedents of the entrepreneurs' risk taking tendencies were found correlated with risk taking, and all in the predicted direction.

Multiple regression analysis for risk taking revealed that the model based on the psychological dispositional antecedents had a predictive ability that explained 63% of the variance in risk taking (see Table 3). The best predictors were the Entrepreneurial Factor and Regulatory Focus of Promotion.

	ENTREPRENEUR FACTOR	MANAGER FACTOR	DREAMER FACTOR
Entrepreneurial	0.85		
Loves challenges	0.80		
Creative	0.66		
Energetic	0.62	0.42	
Independent	0.49		
Rebellious	0.42		
Confident	0.41		
Committed	0.41	0.41	
Loves to manage		0.73	
Needs control		0.67	
Realistic		0.63	
Persistent		0.51	
A dreamer			0.85
Involved			0.64
Optimistic			0.64
Variance explained	25.00%	14.00%	9.00%
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.			

		UNSTANDARDIZED COEFFICIENTS		STANDARDIZED COEFFICIENTS	t	SIG.
		B	Std. Error	Beta		
	(Constant)	-1.84	1.04		-1.77	0.08
1	Entrepreneur Factor	0.86	0.20	0.47	4.33	0.00
2	Manager Factor	0.03	0.12	0.02	0.22	0.83
3	Dreamer factor	0.20	0.10	0.17	2.02	0.05
4	Regulatory Promotion	0.34	0.14	0.23	2.39	0.02
5	Regulatory Prevention	-0.12	0.08	-0.12	-1.49	0.14
6	Secure Attachment	0.05	0.08	0.07	0.66	0.51
7	Avoidant Attachment	0.00	0.08	0.01	0.06	0.95
8	Anxious/Ambivalent	-0.05	0.06	-0.07	-0.85	0.40
9	Openness to experiences	-0.02	0.13	-0.01	-0.15	0.88

As predicted in the second hypothesis, risk taking correlated with both the novelty and technological uncertainty of the ventures the entrepreneurs built, and with the measure that combined both novelty and uncertainty.

As predicted in the third hypothesis, risk taking correlated with several of the success indicators: meeting economic goals, the potential to create a new market and the potential to create a new product line. It was not correlated with meeting schedule and budget goals.

## DISCUSSION

These results provide support for the three hypotheses tested in the study. They show that entrepreneurs' risk taking propensity is correlated with three overarching psychological dimensions – regulatory focus, attachment styles and openness to experiences – all three dimensions describe general ways of viewing the world and as such can be assumed to be antecedents of traits such as risk taking. Entrepreneurs with a regulatory focus of promotion are motivated by a need for growth, for autonomy, and for self-actualization (Higgins, 2000). This is why they tend to take risks (Lieberman et al., 1999). Entrepreneurs with secure attachment style feel secure in themselves and in the world (Mikulincer & Shaver, 2007), this is why they can take risks while avoidant and anxious/ambivalent entrepreneurs feel insecure and therefore avoid taking risks. Entrepreneurs who are high in openness to experiences are curious, creative, original, and adventurous (Costa & McCrae, 1992) which makes them natural risk takers.

These overarching, central, psychological dimensions were rarely studied in the context of entrepreneurs' risk taking. The significant role they were found playing in predicting risk taking demonstrates the importance of expanding the range of psychological dimensions that are studied in this context, but also confirms the importance of the psychological approach for understanding entrepreneurship (Frese, 2009).

The entrepreneurial traits that were found in the current study to be correlated with risk taking (love of challenge, being entrepreneurial, optimism, creativity, rebelliousness, energy, commitment, being a dreamer and confidence) support earlier studies of entrepreneurs' personality traits (e.g., Brandstaetter, 1997; Carland et al., 1996; Fraboni & Saltstone, 1990; Frese, Chell & Klandt, 2000; Kets de Vries, 1977; Lockwood et al., 2006; Nicholson, 1988; Pines et al., 2002; 2004; Solomon & Winslow, 1988). As predicted, risk taking was found not correlated with any of the traits found earlier to characterize managers, including need for control, love of management, realism, persistence and involvement. But risk taking was highly correlated with the Entrepreneur factor (.64) but not with the Manager factor (-.08).

Combined, these findings support studies that describe risk-taking as a major entrepreneurial characteristic (e.g. Cromie, 2000; Cunningham & Lischeron, 1991; Hai & See, 1997; Ho & Koh, 1992; Koh, 1996; Stewart & Roth, 2001; 2004), a characteristic that differentiates entrepreneurs from managers (Stewart & Roth, 2001; 2004). The findings contradict studies that argue that entrepreneurs are risk avoidant (Miner & Raju, 2004) or that risk-taking propensity may not be one of their distinguishing traits (Brockhaus, 1980).

The similarities between entrepreneurs in their "entrepreneurial traits" and their demonstrated lack of "managerial traits" can be explained by Schneider's (1987; 2001) ASA

model. As noted in the introduction, according to the ASA model, people who are entrepreneurs, can be viewed as people who went through the process of attraction, selection and attrition, and as a result end up being rather similar

The correlations between the entrepreneurs' risk taking and their ventures' technological uncertainty (.34) and novelty (.20), support the second hypothesis and can be explained by P-J Fit theory (e.g., Edwards, 1991; Sekiguchi, 2004; Werbel & Gulliland, 1999) and by Trait Activation theory (Tett & Burnett, 2003; Tett & Guterman, 2000): P-J fit theory in terms of the relationship between the attributes of the person and the attributes of the job, Trait Activation theory in terms of person-situation interaction. In this case, the interaction is between risk taking tendencies of entrepreneurs and risk relevant cues in their ventures.

The correlations between risk taking and such aspects of venture success as meeting economic goals, the potential for entrance into new markets and the creation of new lines of products, support the third hypothesis and can be explained by studies showing that the closer the match between individuals' and their job characteristics, the greater their job satisfaction and motivation and the better their performance (e.g., Caldwell & O'Reilly, 1990; Edwards, 1991). When people enjoy their work because it enables their self expression, they also perform well in that work (Tett & Burnett, 2003; Tett & Guterman, 2000).

Risk taking was not correlated with meeting budget and schedule goals. These success dimensions were found to be correlated with the managerial traits: love of management (.26 for budget and .40 for schedule), realism (.41 and .27) and need for control (.47 and .30). These findings suggest that entrepreneurs who are risk takers in nature do not care much about efficiency constraints (budget and schedule) but rather prefer to invest their efforts in issues that may create a brighter future for the organization by opening new market opportunities.

Altogether the findings support the notion of risk taking as an important personality characteristic of entrepreneurs, not the only one, but no doubt a key trait, one that is associated with important venture characteristics, especially in the high-tech industry where ventures are often characterized by high novelty and technological uncertainty, and especially in Israel where entrepreneurs are viewed as cultural heroes (Pines et al., 2005). The findings also demonstrate the validity of using a single-item measure of risk taking, confirming the findings of earlier studies (e.g., Bergkvist & Rossiter, 2007; Gardner et. al., 1998; Nagy, 2002).

The combined perspective of the entrepreneur (dispositional antecedents of entrepreneurs' risk-taking) the venture (venture characteristics that allow for or require risk taking), and the performance outcomes of risk taking (venture success) point to the importance of interdisciplinary studies combining psychological, economic and management perspectives.

The limitations of the study, such as a reliance on self report data, a cross-sectional design, and a focus on entrepreneurs in a single country, point to the need for additional studies that will expand the methodology by including more objective measures of entrepreneurs' and ventures' risk taking, and of venture success, qualitative methodologies and longitudinal designs. Future studies can also examine more directly the role of Entrepreneur-Venture Fit as a mediator

in venture success. Future studies should also include cross-cultural comparisons, including both developed and developing nations to test for differences and similarities, as suggested by Brockman, Becherer and Finch (2006) and better understand entrepreneurs coming from rising economies from the Far East or South America. A better understanding of individual differences in risk taking propensity and risk perception of entrepreneurs in different cultures and nations is especially important in today's economic crisis.

The findings of the current study have theoretical implications for entrepreneurship and personality theory, for P-J fit theory and for P-O fit theory. The findings also have implications for the study of entrepreneurs, such as the importance of homogeneity in the population of entrepreneurs under investigation (i.e., a particular type of entrepreneur in a particular industry). And the findings have practical implication for the training and support of entrepreneurs' propensity of risk taking so as to increase the likelihood of their venture success.

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# SMALL BUSINESSES AND INTERNATIONAL ENTREPRENEURSHIP IN THE ECONOMIC HARD TIME: A GLOBAL STRATEGIC PERSPECTIVE

Nini Yang, San Francisco State University

## ABSTRACT

*This study takes a strategic approach to international entrepreneurship with special attention to small and medium-sized enterprises (SMEs), including small family firms, as these organizations strive to survive in the increasingly intertwined and often volatile global marketplace. Key factors examined include some unique characteristics of small and family businesses (e.g., entrepreneurial vision, entry niche, resources and capabilities, major challenges, and strategic options to go international) and social institutional variables (e.g., culture, economic system, government regulations, and institutional reforms both at home and abroad), which may assist or hamper an entrepreneur's capability to create, build, and expand a new venture within the national context or across borders. The primary focus of the study is to explore how small and family businesses triumph over barriers in the time of economic downturns. It expands prior research on entrepreneurship by developing a contextual global strategic framework for entrepreneurial firms. Country-firm specific examples are incorporated to illustrate ways to assess and exploit market opportunities, including firm registration procedures and costs, capital formation, and fund raising. Through this endeavor, the study provides practical implications for small business owners and managers as they attempt for resource acquisition and capability development, particularly in the rapidly globalizing industries. Practical implications are discussed and suggestions for future research provided.*

**Keywords:** entrepreneurship, national context, institutional reforms, SME global strategies

## INTRODUCTION

Small businesses play a vital role in many societies. Where data are available, such as in Europe, North America, and Asia (e.g. IFERA, 2002; OECD, 2002; USSBA, 2006), over 95% of all businesses are small, including many family businesses, which contribute to over 50% of the GNPs and generate 60%-90% of the new jobs annually depending on the country. While some of these businesses may be content to operate in a domestic market, more are expanding across borders. In South Korea, for example, small businesses account for approximately 40% of Korean exports and 65% of Korean manufacturing FDI (foreign direct investment). Small businesses in the United States employ over 50% of the workforce, produce more than 30% of

export value, and represent as many as 97% of identified exporters. With trade liberalization and regional economic integration in many parts of the world, from manufacturing to services and e-commerce, a new global business paradigm awaits more market-driven small and medium-sized enterprises (SMEs) to enter. To exploit opportunities in an increasingly globalized market, it is imperative that small and family business managers, whether domestically based or doing business across borders, learn about their strategic options and adapt on a country-by-country basis.

There are different definitions of what makes a small business. This study follows the conventional idea that small businesses are by and large entrepreneurial organizations, which are relatively young and have fewer than 500 employees (OECD, 2002). An entrepreneurial organization deals with risks and uncertainty of new and untested business opportunities. The term entrepreneurship refers to the discovery, evaluation, and exploitation of market opportunities (Baker, Gedajlovic & Lubatkin, 2005). When applied to the international level, small businesses create new ventures that seek profits and growth beyond national boundaries, just as their larger counterparts do. Small businesses also face similar strategic options as larger multinational enterprises (MNEs), such as exporting, franchising, licensing, joint ventures, strategic alliances, and FDI. In contrast, however, being small often means limited financial and personnel resources, lack of prior international experiences, and lack of sufficient scale to produce goods or services as efficiently as do the larger firms. In spite of these constraints, small businesses continue to be an important and rising component of international trade and investments.

There is widespread knowledge that entrepreneurs and entrepreneurial organizations are among major drivers for sustained economic growth. The socioeconomic contributions made by small businesses cannot be underestimated, which are particularly valuable during the time of an economic downturn. In addition to creating jobs and generating revenues, small businesses accommodate underemployed workers and their families, contribute to innovations, and support the local communities. However, it should be noted that there are both rewards and risks for being young and small. While many entrepreneurs will try to start a new venture, a large number will fall short. Approximately 60% of start-ups in the United States for instance fail within one to six years (Mudambi & Zahara, 2007; Timmons, 1999). Recent news reports show that small businesses are among the most vulnerable when being caught in the recent worldwide financial crisis. In Germany, as many as 16,600 SMEs filed for bankruptcy within the first half of 2009, 14% more than the same time in 2008 (Zheng & Nie, 2009). Whereas the governments of various nations have issued bulky amounts of the state funds to bailout large corporations and financial institutions, such as the General Motors, Citibank, and AIG (American International Group) in the United States, the credit crunch has trapped many SMEs in a death spiral. According to a recent national survey by the U.S. Small Business Administration (USSBA, 2008), 67% of small business owners were affected by the credit crunch, and 32% experienced

deterioration in the terms of bank loans. Small business cutbacks during the recession have harsh repercussions on the economic recovery around the world.

It is under those circumstances that the present study takes a strategic approach to international entrepreneurship with special attention to small businesses as these organizations strive to survive in the increasingly intertwined and often volatile global marketplace. Key factors examined include some unique characteristics of small businesses (e.g., entrepreneurship drive, resource acquisition, organizational capabilities, and strategic options for going international) and social institutional variables (e.g., culture, government regulations, institutional reforms both at home and abroad), which may assist or hamper an entrepreneur's capability to expand business operations domestically or to exploit survival and growth opportunities across borders. The primary focus of the study is to explore how small businesses triumph over barriers in the time of an economic downturn so that to develop a contextual framework for weighing strategic options. Country-firm specific examples are incorporated to illustrate ways to assess and exploit opportunities.

### **PERSPECTIVES ON ENTREPRENEURSHIP AND SMALL BUSINESSES**

Entrepreneurship is concerned with the sources of opportunities, the process of discovery, evaluation, and exploitation of opportunities, and the individuals who discover, evaluate, and exploit opportunities (Baker, Gedajlovic & Lubatkin, 2005; Shane & Venkataraman, 2000). By a broad definition, entrepreneurs may be founders and owners of new businesses or managers of well-established companies. Although entrepreneurial firms are not characteristically distinct by organizational size and age, the conventional concept of entrepreneurship is often associated with smaller and younger firms. By the same notion, family businesses are not necessarily small, but the majority of family businesses belong to the category of small businesses (Cappuyns, Astrachan & Klein, 2002). The United Nations and the Organization for Economic Cooperation and Development (OECD, 2002) define small businesses as those having fewer than 500 employees. The U.S. Small Business Administration classifies small and family businesses by a wide range of variables such as sales revenues and the number of employees depending on the specific industry. In manufacturing industries, the maximum number of employees for small businesses ranges from 500 to 1,500, depending on the specific industry (Scarborough & Zimmer, 1996). The popular press usually considers small businesses as those with fewer than 100 employees. For the present study, the key is to explore how small and family businesses survive and grow in the competitive global marketplace as opposed to figuring out a universal definition. Therefore, in the following, the term of small and medium-sized enterprises (SMEs) is used interchangeably and sometimes parallel with small and family businesses. As well, for the purpose of the present study, the term entrepreneurship is limited to the SMEs, broadly defined as firms with fewer than 500 employees, including family businesses.

Literature on entrepreneurship offers a few theoretical perspectives, such as traits-based, institutions-based, resource-based, organizational behavior-based and cross-cultural comparative points of view. First of all is the debate between traits and institutions. The former is mainly focused on the question of *what* motivates individual entrepreneurs to start new ventures and *why* many of those individuals break away from large organizations, while the latter is more concerned with *how* entrepreneurial firms are guided and influenced by the surrounding environment that set formal and informal rules of the game. The traits school of thought posits that motivational factors such as high need for achievement, desire for independence, internal locus of control, and risk-taking propensity drive entrepreneurial behaviors (e.g., Parringer, Jones & Neubaum, 2005; Tiessen, 1997). Critics argue that those personality traits are not necessarily limited to entrepreneurs, but are also characteristics of many non-entrepreneurial successful individuals (e.g., Busenitz, Gomez & Spencer, 2000). Instead it is the national context of a given society, namely the social institutional environment that influences how firms are formed and how individual entrepreneurs approach unexplored opportunities.

### **Entrepreneurship and the National Context**

The national context includes both tangible and intangible institutions, such as cultural values and societal expectations, educational systems, regulations and procedures, economic systems, and government policies regarding how things are done in a given society. Intangible institutions, such as cultural values, education, and societal expectations, affect normative and cognitive dimensions of entrepreneurship. Some argue that because entrepreneurs and entrepreneurial firms must cope with more risks and uncertainty, individualism and low uncertainty avoidance oriented societies tend to foster relatively more entrepreneurship, whereas societies with cultural norms of collectivism and high uncertainty avoidance may result in lower levels of entrepreneurship (Thomas & Mueller, 2000). It should be noted, however, comparative studies on the motives of entrepreneurs also see commonalities among individual entrepreneurs across cultures. For example, McGrath and MacMillan (1992) point to a set of shared values that differentiate entrepreneurs from non-entrepreneurs. More specifically, entrepreneurs tend to share high dimensions of power distance, individualism, and masculinity, and score low on uncertainty avoidance, regardless of national culture.

Among more tangible and formal institutions, government policies and regulations may provide support for small businesses, help reduce the degree of risks and uncertainty of starting a new venture, and facilitate resource acquisition for budding entrepreneurs. For example, many export-driven economies in Asia have government policies to provide assistance and tax credits for small businesses to export their products and to develop new trade contracts. As well the state may determine that some economic sectors or projects cannot be run by private interests, and thus the government intervenes and takes control of these sectors. Some western European

countries such as France, Italy, Denmark, and Sweden have the custom of government involvement in resource allocations and production decisions.

Economic systems are usually categorized as capitalist, central-planned, mixed, and transitional. In capitalist or free-market economies, production activities are more decentralized to private business owners, large or small, as they pursue profits in a competitive marketplace. Conversely, central-planned or command economies may impede individually initiated entrepreneurial activities because business enterprises are predominantly state-owned where resource allocations and production decisions are centrally coordinated. For example, the overseas ethnic Chinese have consistently exhibited a high degree of entrepreneurship throughout Southeast Asia and are increasingly visible as small and family business owners in Europe and Africa. Yet, in mainland China, prior to the economic reform (1950s-1970s), there had been virtually no private entrepreneurial entities because the state-owned enterprises (SOEs) were the norm. China's economic reform and open-up policies beginning in 1979 have turned the country to a transitional economy. The institutional transitions are more entrepreneurship-friendly and have consequently launched a booming era of small and family businesses. Small and family businesses now comprise 80% of all enterprises in China, with 90% classified as rural township and village enterprises. Innovation is at the heart of small and medium-sized firms, which generate over 70% of China's innovation in science and technology (P.R.C. National Bureau of Statistics, 2009).

A global survey of the World Bank (2002) revealed the bureaucratic and legal hurdles an entrepreneur must overcome to incorporate and register a new firm. Results show that countries differ significantly in the way they regulate the entry of new businesses (Table 1). Specifically, a start-up has to comply with a number of procedures in order to obtain a legal status, and go through a number of screening steps in order to obtain a registration certificate that are not associated with safety and health issues, the environment, taxes, or labor regulations.

<b>Rank</b>	<b>Country</b>	<b>Number of Procedures</b>	<b>Screening Steps</b>	<b>Time (Days)</b>	<b>Direct costs (% of Per Capita GDP)</b>	<b>Time + Direct costs (% of Per Capita GDP)</b>
1	Canada	2	1	2	1.45	2.25
2	Australia	2	1	2	2.25	3.05
3	New Zealand	3	2	3	0.53	1.73
4	Denmark	3	2	3	1.00	1.12
5	Ireland	3	2	16	1.16	1.80
6	United States	4	2	4	0.50	1.69
7	Norway	4	3	18	4.72	11.92
8	United Kingdom	5	4	4	1.43	3.30
9	Hong Kong	5	4	15	3.33	9.33
19	Singapore	7	4	22	11.91	20.71
25	Taiwan	8	5	37	6.60	21.40
44	India	10	4	77	57.76	88.56
45	Japan	11	7	26	11.61	22.01
57	China	12	5	92	14.17	50.97

**Table 1: Comparing the Costs of Starting Up a New Venture in Different Countries**

Rank	Country	Number of Procedures	Screening Steps	Time (Days)	Direct costs (% of Per Capita GDP)	Time + Direct costs (% of Per Capita GDP)
58	Korea, Rep.	13	7	27	16.27	27.07
72	Brazil	15	3	63	20.14	45.34
73	Mexico	15	7	67	56.64	83.44
79	Vietnam	16	9	112	133.77	178.57
83	Russia	20	13	57	19.79	42.57
85	Dominican Rep.	21	16	80	463.09	495.09
<b>Global Average</b>		10.48	6.04	47.49	47.08	65.98

*Sources:* Adapted from the World Bank's Doing Business Project (2002). Ranking is sorted in ascending order based on the number of procedures and associated time and cost.

As illustrated in Table 1, the number of procedures required for starting up a new venture is highly correlated with both the time and cost variables. Entrepreneurs pay a steep price in terms of fees and delays in countries that make intense use of regulatory procedures and screening (Djankow, La Porta, Lopez-Silanes & Shleifer, 2002). For example, an entrepreneur in Dominican Republic must complete 21 procedures to start up a new firm, which takes 80 business days (five business days per week) and costs nearly five times of the GDP per capita (time plus direct costs such as fees, costs of procedures and forms, photocopies, fiscal stamps, legal and notary charges, etc.). In contrast, starting a new firm in Canada takes only two procedures in two days, with a total cost of 2.25% of the GDP per capita (time plus direct costs). Further analysis indicates that heavy regulations of entry are not associated with higher quality products, better health records, or less environmental pollution outcomes. Instead, heavy regulation is associated with sharply higher levels of corruption that is socially and economically inefficient. Higher entry costs are also associated with a smaller number of legally registered firms but a larger informal sector for small business activities. Variations in regulatory costs across countries lead to differences in total entrepreneurial activities and performance. When regulations are too heavy, start-up costs and risks increase, cutting into small and younger firms' profits and discouraging individuals to engage in entrepreneurial activities. Job creations suffer. Economies where it takes less time and lower regulatory costs to start a new business benefit from higher rates of entry in industries with a potential for expansion.

## Resources and Capabilities

From the organizational perspective, firm specific resources and capabilities largely determine entrepreneurial success and failure. A firm possesses a bundle of productive resources and capabilities (Penrose, 1959; Pettus, 2001). Resources include both the tangible and intangible assets that a firm utilizes to exploit opportunities and implement its business strategies in the marketplace. Capabilities refer to a firm's capacity to deploy resources and create value. Tangible resources and capabilities are more observable and can be quantified in terms of a firm's financial capacity (e.g., internal funds and external capital to support its business

strategies), physical capacity (e.g., plants and equipments for operative activities), technological capacity (e.g., skills, expertise, patents, trademarks, and copyrights to generate leading-edge products and services), and organizational capacity (e.g., personnel, structure, and formal control mechanisms). Intangible resources and capabilities are less visible and relatively more difficult to quantify, such as organizational culture and shared values, leadership and management capabilities, vision, knowledge, information, trust, talents, company image and reputation, and workplace moral, which are critically linked to firm performance or failure.

In general, resource-based research has been focused on large, established firms (West III & Noel, 2008), whereas the challenge of resource acquisition and capability development are unique to new ventures, which typically have to move from a non-entity with virtually zero resources to possession of a market niche or gaining a competitive position. A new venture's success requires more broadly applicable knowledge, networks, and capabilities to organize something from nothing, to plan where none has been done before, and to motivate brand new employees and stakeholders. Hence for a start-up, survival and growth rely more heavily on intangible resources such as the entrepreneurial drive, vision, and leadership of the founder and the capabilities of the founding team, which complement the shortage of tangible resources such as capital, personnel, and operative routines. An entrepreneur must have the knowledge about the specific industry, opportunities in the market, and strategic options regarding how to create, develop, and harvest a new venture. One of the biggest challenges confronting a new venture is transforming the founding CEO's personal knowledge and vision into organizational resources and capabilities.

An immediate key issue that top business constraints to all start-ups is how to raise capital. Where are the financial sources? Who would take the risk to invest in new ventures, given there are well-known high failure rates around the world? Cross-cultural studies indicate that entrepreneurs differ significantly to the extent they seek resources from formal financial institutions such as venture capitalists vis-à-vis from informal sources such as family and friends circles. More specifically, entrepreneurial firms in Sweden, South Africa, Belgium, the United States, and Norway lead the world in formal venture capital investment as a percentage of GDP. In contrast, China leads the world with the highest level of informal investment as a percentage of GDP (Miniti, Bygrave & Autio, 2006). On the one hand, Chinese traditional values of collectivism, which emphasize family and personal networking like *guanxi*, together with China's relatively inadequate formal financial infrastructures such as venture capitalists and credit-reporting agencies, help explain the entrepreneurial tendency of raising capital largely through family and personal connections. On the other hand, the world financial market is not segregated by geographical boundaries and offers broader financing alternatives. Financially constrained Chinese start-ups can actively exploit sources beyond the national border. For example, Baidu, the Chinese Internet search engine commonly known as China's Google, had its initial public offering listed on the NASDAQ in 2005, where its share value surged over 3.5 times within one trading day. As a private Internet start-up, Baidu was at first unable to pass the

screening at home in order to list on China's stock exchanges, but by going international it experienced a high degree of investors' confidence on the U.S. stock exchanges.

## **STRATEGIC APPROACHES IN THE TIME OF ECONOMIC DOWNTURNS**

The past few years have been tough for firms around the world to cope with the financial crisis that started from rich economies but led to a global economic downturn. An estimated 50 million people risked losing their jobs in 2009 (World Bank, 2010). It is particularly harsh for SMEs and small family businesses as their access to credit became extremely difficult. Small business cutbacks have ripple effects on the world economy. When small businesses cannot get loans, job growth and economic recovery stall. Demand for many products fell in domestic and international markets. As a result, trade has been slowed globally. Nevertheless, as large companies shed jobs, SMEs and small family businesses remain crucial in keeping the job loss number from turning even worse. Export-driven economies such as China saw their exports shrinking and quickly turned to strategies to stimulate growth from the within. In the United States, an emergency rescue plan was issued to aid small businesses in the historic economic downfall. While many state regimes are striving to make the business environment more entrepreneur-friendly, survival of small and medium-sized firms still by and large depends on how they form the responding strategies to take advantage of formal and informal institutional resources and leverage their capabilities at home, abroad, or both.

### **Regulatory Reforms and Small Business Rescue**

Empirically self-employment tends to increase as the economy falls, particularly at the time many laid-off workers started tiny businesses after failing to find work in the deep recession. Meanwhile the rising number of small business closures and bankruptcies is alarming. According to the U.S. Small Business Administration (2009), there were 627,200 new start-ups in 2008, with 595,600 business closures, and 43,546 bankruptcies. In Europe, the crisis has devastated countries dependent on foreign investments, such as Iceland, and those thriving on the car industry like Hungary. Germany is also struggling, where firms with up to nine employees are the backbone of the economy, which make up 93% of the country's 1.6 million enterprises. Small and medium-sized firms make up two-thirds of employment in Germany, even more than in the United States and Britain. The number of German companies filing for bankruptcy protection was up 12.3% in August 2009, even as the economy was slowly emerging from recession (The Associated Press, 2009), while the demand for German products had shrunk to historic low. Facing many challenges of the worldwide financial crisis, some governments have included reforms of business regulations and small business rescue plans in their economic recovery strategies. The World Bank Doing Business Project (2010) recorded 287 regulatory reforms in 131 economies.



Historically many regulatory reforms have been prompted by economic recessions or financial crises. The East Asian financial crisis in 1997 motivated many economies to reengineer their bankruptcy systems. Countries like Singapore and Thailand reformed laws to strengthen investor protection. Post-crisis reforms were also carried out in countries like Turkey. Common features among consistent reformers include long-term strategies aimed at increasing the competitiveness of their firms, a clear direction in policy agendas, and engaging all relevant public agencies and private sector representatives in crafting and institutionalizing the reforms at the highest level.

The Great Depression in the United States prompted the country's first comprehensive bankruptcy reform, and the U.S. Bankruptcy Law has been amended several times in 50 years. The U.S. Bankruptcy Law allows businesses, whether organized as a corporation or sole proprietorship, to undergo a financial reorganization supervised by a federal bankruptcy court. It allows a troubled company to continue running, cancel some of its debts, and give ownership of the newly reorganized company to the creditors whose debts are canceled. Alternatively, a bankrupted business can be sold as a going concern with the net proceeds of the sale distributed to creditors ratably in accordance with statutory priorities. In this way, jobs may be saved, and the previously mismanaged businesses can be restructured, presumably under better management rather than being dismantled. Approximately 50% of American entrepreneurs who filed bankruptcy were able to resume a new venture in four year, in part due to the relatively more entrepreneur-friendly bankruptcy law in the country (Shepherd, 2003). Recent passage of the Bankruptcy Prevention and Consumer Protection Act (2005) resulted in major reforms in the U.S. bankruptcy law, including supervision of random and targeted audits, certification of entities to provide credit counseling that individuals must receive before filing for bankruptcy, certification of entities that provide financial education to individuals before being discharged from debt, and greater oversight of small business Chapter 11 reorganization cases.

This time the U.S. Small Business Rescue Plan was considered long overdue after the billions were given to bailout the largest corporations (White, 2008). Nonetheless, it is not too late to mend the fold even after some of the sheep have been lost. The newly announced Small Business Emergency Rescue Plan is particularly aimed at helping small firms obtain loans to meet day-to-day operation expenses, to make important short-term investments, and to meet payrolls. It also includes tax cuts for small businesses, tax incentives to encourage investment in jobs, and tax credits for employee health care costs.

Recognizing the economic impacts of SMEs and small family businesses, such as generating jobs, revenues, and innovation, many countries implemented regulatory reforms with a focus on making it easier to start and operate a business, strengthening property rights, reducing the corporate tax burden, and improving the efficiency of commercial dispute resolution and bankruptcy procedures (World Bank, 2010). Singapore and Hong Kong (China) rank among the top economies on the ease of doing business and are also the most consistent reformers. France and Germany are among the first to reform their bankruptcy systems in

response to the financial crisis. In recent years, German start-ups increasingly registered in the United Kingdom, where the registration was easier and less costly than in Germany. The recent German regulatory reforms created a new form of limited liability for start-ups, which may reverse this trend.

Among OECD high-income countries, regulatory reforms are more focused on easing the corporate tax burden and improving property registration systems. In comparison, reforms in developing countries are more focused on cutting red tapes and easing the bureaucratic burden for firms, such as procedures and fees (World Bank, 2010). Among the top reformers, China's new Property Rights Law, which came into effect on October 1, 2007, was an important step towards improving access to credit for SMEs (Marechal, Tekin & Gulyeva, 2009). In 2008, Germany introduced a new legal form of limited liability companies (*Unternehmersgesellschaft*, or UG) with no minimum capital requirement, enabling the number of registered UGs to increase by 12,000 between November 2008 and January 2010 (World Bank, 2011). Governments around the world are also increasingly using technology to improve the efficiency of services, including charging lower fees of on-line registration and providing a one-stop shop by consolidating start-up procedures into a single access point or one agency. These reforms in easing start-up and moving toward e-government procedures illustrate some immediate results in cost savings and increased new business registrations, with the world average time to start a business falling to 34 days and the average cost reduced to 41% of income per capita (World Bank, 2011). Yet resources gaps and institutional discrepancies persist across countries and between large and small firms. The regulatory costs remain more burdensome for small firms than for larger ones. Entrepreneurs in OECD high income economies benefit from the fastest and least costly processes to start a business, taking 14 days and 5.34% of income per capita on average; whereas starting a business takes 4 times as long on average and 18 times as costly relative to income per capita in Latin America and the Caribbean. Entrepreneurs in Sub-Saharan Africa face the highest paid-in minimum capital requirements, 146% of income per capita on average.

### **Looking Beyond the Short Term**

Institutional reforms can be difficult and take time, particularly if legal changes are involved. China's Property Rights Law, for example, took 14 years of consultation, setbacks and delays as a consequence of political debate, learning, and amendment. Unsurprisingly, the regulatory reforms recorded worldwide in recent years were largely aimed at reducing the administrative burdens to ease the pain associated with business start-up, property registration, and trading across borders, or as emergency lending facility for small businesses to cope with the financial crisis. Short-term rescue measures will not last forever. To take advantage of the entrepreneur-friendly environment and exploit the tangible and intangible resources both at home and abroad, it is increasingly vital that small businesses form long-term strategies, and look beyond the national boundaries. In the era of rapid globalization and as on-going socioeconomic

changes taking place in many societies, small business owners and managers should constantly upgrade their knowledge base, and move early to identify, develop, and leverage their unique resources and capabilities for rising opportunities.

There is a myth that only large multinational enterprises (MNEs) have the capabilities to do business abroad and that small businesses or SMEs must operate at home and stay domestic-orientated. This assumption has been increasingly challenged as more and more SMEs are going global. As companies compete on resources and capabilities, it is even more important for entrepreneurs and small business managers to pay attention to every resource and capability internally and externally. Taking advantage of the regional economic integration and the enlarged European Union, many small businesses in Germany expanded to the neighboring countries to benefit from the more cost-efficient production factors such as labor, land, facility, and closer access to consumers. As well, when the Chinese Internet search engine Baidu was faced with financial constraints in the home market, it looked beyond the national boundary to raise capital from the international stock market. Small businesses can also actively exploit opportunities through e-commerce, become a long-term supplier for MNEs, or form international strategic alliances. The U.S. multinational retailer Wal-Mart directly exports about US\$9 billion from China every year, and has established partnerships with nearly 20,000 local suppliers in China (Yang, 2008). Japanese auto makers such as Toyota and Honda not only operate their assembly factories in foreign markets, but have also expanded their supply chains to include both local component producers and their traditional home-based *keiretsu* suppliers.

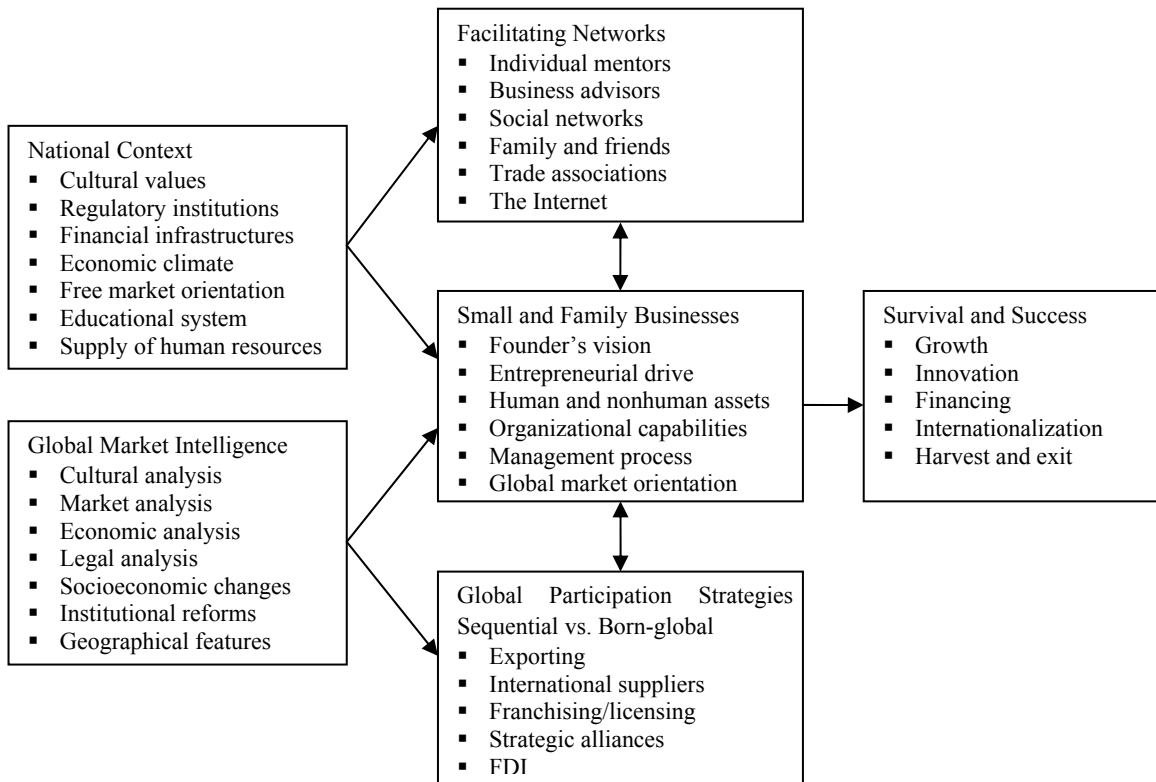
Developing and managing strategic alliances with MNEs or with local business partners require a good understanding of the rules of the game, both formal and informal. SMEs' success and failure of international alliances and inter-firm relationships are fundamentally determined by a firm's intangible resources such as the founder's or founding team's vision and international entrepreneurial drive, relational capabilities, cultural empathy, and market intelligence, in addition to the hard assets such as technology and capital. In fact, some of the global participation strategies do not require small businesses to leave their home country, such as exporting, being a contracted supplier for large MNEs, franchising, or licensing. In any event, when doing business beyond national boundaries, a firm's knowledge of cross-cultural differences and management capabilities to form and implement country-firm specific strategies become essential.

### **Global Participation Strategies for Entrepreneurs and Entrepreneurial Firms**

Looking beyond the difficult time and planning ahead towards the recovery, a broader strategic view is required to better understand the complexity and challenges of managing small and medium-sized enterprises (SMEs), including small family businesses. Figure 1 draws together a number of key factors derived from the above concepts and cross-cultural comparisons of entrepreneurship and entrepreneurial firms. It portrays a dynamic cross-cultural

context, in which SMEs and small family businesses embark, operate, adapt, compete on resources and capabilities, and exploit market opportunities. Knowledge of these key factors and capability of adaptation to the on-going socioeconomic changes are essential for small business survival and success, whether they are more domestically focused or moving towards higher levels of global participation.

**Figure 1: A Global Strategic Framework for Entrepreneurs and Entrepreneurial Firms**



There are two major streams of research on the process of internationalizing SMEs, which are also relevant for small family businesses. One is a stage-by-stage learning and adaptation model, and the other is a born-global model such as global start-ups that endeavor to do business across borders from inception. The traditional view follows the sequential process, commonly known as the stage model that takes an incremental approach to the SME internationalization (Johnson & Vahlne, 1977). Under the stage model, the level of complexity and the required resources increase from passive exports (filling international orders) to more actively seeking and exploiting international opportunities through export management, finding local partners for distribution, setting up sales branches, licensing and franchising, production

abroad, and FDI (e.g., Bilkey & Tesar, 1977; Dollinger, 1995). The stage model allows the firms to acquire knowledge about the new markets and to increase resource commitment to those markets gradually, and by so doing to minimize their exposure to potential risks (e.g., economic, political, financial) as well as to accumulate international expertise step by step.

From the resource-based perspective of entrepreneurship, the sequential course that leads from a domestic focus to a global market orientation is a learning process, whereby knowledge of the new markets is acquired, firm capabilities are developed, and resources are increasingly committed to opportunities beyond the national boundaries. To minimize the risks, firms with little prior international experiences are more likely to begin their international expansion from similar markets that are more culturally and geographically close to their own, rather than choosing sharply unfamiliar markets. In this regard, the concept of formal and informal institutions becomes important for individual entrepreneurs and SMEs in the early stages of internationalization. Cultural distance is more intangible, as opposed to geographical distance, which can be assessed by a group of variables, such as language, cultural values, religion, socioeconomic changes, politics, and legal conditions, in order to form firm-specific and market responsive participation strategies.

The stage model of internationalization entails a slow, stage-by-stage process. It depicts that even small businesses can go international through incremental learning and resource commitment. Just as their large counterparts, SMEs and small family businesses face a range of global participation strategies, depending on the particular stage of their organizational life cycle towards internationalization, from relatively quick and simple to more complex and risky ways, such as direct and indirect exporting (through intermediaries), becoming a long-term supplier for MNEs, setting up local sales offices (to serve and interact more directly with the local buyers and consumers), licensing and franchising (a good way to learn and acquire some world-class standards and practices), production abroad (to gain and benefit from the local comparative advantages such as labor, natural resources, capital, and technology), strategic alliances (beyond downstream value chain activities), and FDI (through green-field wholly owned subsidiaries, acquisition, merger, or international joint ventures).

The current state of research suggests that the sequential process of internationalization is more appropriate in mature industries where the environmental changes are minimal, whereas in fast growing industries, the born-global model provides a better understanding of rapid internationalization of small businesses (e.g., Andersson, 2004; Andersson & Wictor 2003). The most significant feature of the born-global model is the founder's global focus from inception. Global start-ups are usually technology-intensive firms that are formed by global market-oriented entrepreneurs, often in response to a significant breakthrough in process or technology. As innovation is at the heart of entrepreneurship, new ventures being the first to induce a product or service can gain an entry wedge that allow them to capture the first mover advantage.

Global start-ups can also be instant exporters, who see and rapidly move ahead to meet demand for their products or services from other countries. Small businesses taking a low-cost

strategy can outperform some large counterparts and thus break into an established global industry, such as the low-cost semiconductor firms in Taiwan and South Korea, small solar-tractor innovators based in the Silicon Valley of the United States, and customer-tailored consumer goods or cultural icon souvenir producers in China. In comparison with other global participation strategies, exporting is a relatively easy and swift way for small firms and family businesses to generate revenues and profits, whereby providing the much needed cash flow for routine operation and growth. Table 2 compares bureaucratic procedures and associated costs for trading across borders. Firms based in East Asia and Pacific have the low-cost advantage for both export and import (US\$ per container cost), whereas firms from OECD countries have the advantage of most time-efficient administration (fewer numbers of documents and days to export and import).

**Table 2: Trading across Borders**

Region or Economy	Documents to Export (Number)	Time to Export (Days)	Cost to Export (US\$ Per Container)	Documents to Import (Number)	Time to Import (Days)	Cost to Import (US\$ Per Container)
East Asia and Pacific	6.7	23.1	909.3	7.1	24.3	952.8
Middle East and North Africa	6.4	22.5	1,034.8	7.4	25.9	1,221.7
OECD	4.3	10.5	1,089.7	4.9	11.0	1,145.9
Latin America and Caribbean	6.8	18.6	1,243.6	7.3	20.9	1,481.0
South Asia	8.5	32.4	1,364.1	9.0	32.2	1,509.1
Eastern Europe and Central Asia	6.5	26.8	1,581.8	7.8	28.4	1,773.5
Sub-Saharan Africa	7.8	33.6	1,941.8	8.8	39.4	2,365.4

*Sources:* Adapted from the World Bank Doing Business Project (2009)

The inherent advantages for SMEs and small family businesses include speed, flexibility, adaptability, responsiveness to problems at hand, low cost and quick move in decision-making, and less visible than big rivals. For a new venture, the founder's vision and entrepreneurial drive complement some institutional and resource-related constraints. The major challenges of being young and small include limited financial, physical, social, organizational, and personnel resources, liability of newness, lack of sufficient scale to produce goods or services as efficiently as large MNEs, and dealing with regulatory bureaucracy and entry barriers at home, abroad, or both. The liability of being new is associated with difficulty in finding customers, reliable suppliers, and potential investors. In view of international entrepreneurship, global start-ups are more risky than the incremental stage model, as inexperienced swimmers may fall down in unfamiliar foreign waters. However, the born-global model may offer the only avenue of success for new ventures in the fast globalizing industry (Oviatt & McDougall, 1995), particularly for the start-ups whose global entry niche is based on speed. Technology-intensive entrepreneurs need to rapidly go after the emerging opportunities or may otherwise lose the first-mover advantage completely in the fast advancing high-tech industry.

Table 3 draws attention to some unique advantages and challenges for small businesses, whether they start with a domestic focus or possess an international orientation at inception. In

spite of institutional and resource-related constraints, SMEs and small family businesses can triumph over barriers by weighing the pros and cons related to being young and small, leverage their unique capabilities to exploit opportunities, and develop pertinent strategies to meet the challenge and flourish.

<b>Advantages</b>	<b>Challenges</b>
Founder's vision and commitment Entrepreneurial drive Innovative ideas Niche market Speedy move Flexibility Adaptability Responsiveness to problems Low-cost production or service Less organizational bureaucracy Less visible than big rivals Facilitating institutions	Financial constraint and raising capital Limited human and non-human assets Recruiting and retaining competent employees Inspiring new stakeholders Lack of past-test routines Lack of prior international experiences Management capabilities Lack of sufficient scale to produce goods or services as efficiently as large MNEs Liability of newness Finding reliable suppliers or partners Government bureaucracy and entry barriers

When expanding businesses across borders, a firm's knowledge of cross-cultural differences and organizational capabilities to assess and develop suitable strategies become an important parameter. The possession of certain resources and capabilities can facilitate the global start-ups, such as the founder's vision and global market orientation, an entry niche, facilitating institutions at home and abroad, knowledge and information, advances in process and communication technology, and strength of the global, professional, and personal networks, including trade associations and family and friends circles. Network activities can help generate new ideas, knowledge, information, and access to potential investors, suppliers, and customers. A global market niche is important, but may not last forever. Another strategic option for international entrepreneurs is harvest-and-exit. A SME or small family business may sell an equity stake or the entire entity to a larger company. Taking into consideration the high failure rates of start-ups, being sold to or acquired by a larger MNE may help preserve the capital for future opportunities.

In any event, resources and capabilities are important factors that SMEs and small family businesses must acquire and create value as they evaluate and exploit market opportunities. At the same time, there are rapid on-going socioeconomic changes taking place in many societies. Industries differ in terms of being relatively mature or rapidly globalizing. Countries differ in terms of cultural traditions, political and economic systems, legal conditions, and government policies and regulations. To sustain the entry niche and enhance firm competitiveness, small business owners and managers must transform their entrepreneurial visions and expertise into organizational resources and capabilities. To that end, it is important for SMEs and small family businesses to stay current about the industry (e.g., mature or fast advancing in technology and

innovation), the market (e.g., production factors, economic climate, competition), cultural norms and institutional conditions (e.g., formal and informal rules of the game, emerging legal and regulatory changes), and their strategic options within the national context and across borders.

## DISCUSSION AND CONCLUSIONS

This study expands prior research on small businesses in four ways. First of all, the study points to the severe challenges and financial hardship that have trapped many SMEs and small family businesses in a death spiral due to the recent economic downturn worldwide, such as declining demand for their products and services both domestically and internationally, deteriorating terms of bank loans, increased difficulty in private fund raising and access to credit, and the imbalance of government rescue plans to bailout the financially troubled big giants while leaving many small businesses to go for closures or file bankruptcies. The study brings to light that survival and growth of small businesses become even more critical during the time of deep recession. Despite the high failure rates, entrepreneurship should be encouraged, because entrepreneurs and entrepreneurial firms play a crucial role in creating employment opportunities, accommodating underemployed workers and their families, producing revenues, and generating innovations. The importance of small businesses as a driving engine for economic prosperity, innovation, and community development cannot be underestimated. In easing the pain associated with business start-ups and international trade during the time of recession, much can be achieved through cost-efficient administrative procedures and institutional reforms within the national context. In this regard, the social institutional environment surrounding small businesses may assist or penalize a struggling new venture. More specifically, efficient court and bankruptcy procedures help ensure that human and non-human assets can be reallocated quickly, including accumulated knowledge, experiences, and capabilities from the unsuccessful small business endeavors. Legally sanctioned financial reorganization or debt forgiveness can enable failed entrepreneurs to move on or resume new ventures afterward. If failed entrepreneurs have to drop out of the market permanently, their wisdom, experiences, and lessons learned from the past cannot turn to profitable businesses in the future, which would mean a total loss. Strong property rights and investor protections can help establish the basis for trust and rebuild confidence in investment when economy recovers. While short-term rescue and recovery plans are necessary, it is imperative that firms look beyond the difficult time and develop proactive long-term strategies.

Second, the study provides a comprehensive review of research on entrepreneurship, with special attention to the unique characteristics of SMEs, including small family businesses. Given that research on global competitiveness has been by and large focused on large, well-established firms, this study offers insights into some unique advantages and major challenges facing younger and smaller firms. Through this endeavor, the study provides practical implications for small business owners and managers as they strive for resource acquisition and capability



development, particularly in the rapidly globalizing industries. The study stresses that small business advantages such as the founding CEO's vision, entrepreneurial drive, expertise, and international market orientation must be transformed to organizational resources, capabilities, and shared values in order to overcome the financial, physical, social, organizational, and personnel constraints in the long run. The unique benefits of being young and small, such as speed, flexibility, and low cost, can be leveraged to gain an entry niche, be it based on a breakthrough in process and technology, or based on low-cost products and services, or both. Strategic alliances or partnerships with well-established MNEs can help small firms conquer the liabilities of being new, and generate the much needed revenue and cash flow.

Third, the study sheds light on international entrepreneurship and global participation strategies for SMEs and small family businesses. The contextual global strategic framework for entrepreneurs and entrepreneurial firms depicts a highly dynamic business environment with key factors that directly or interactively influence an entrepreneur's resources and capabilities to create, build, and expand business operations within the national context or across borders. It brings to light a range of global participation strategies facing small and younger firms just as their larger counterparts. Proper assessment and formation of the country-firm specific strategies require global market intelligence about the industry (e.g., mature or fast advancing in technology, domestically established or rapidly globalizing), the market (e.g., production factors, economic climate, formal and informal institutions), the intangible cultural distance (e.g., values, language, religion), and on-going socioeconomic changes (e.g., social movements, politics, government regulations, and institutional reforms) at home and abroad.

Fourth, the study provides both practical implications and suggestions for future research. In the era of globalization, trade liberalization, and regional economic integrations, a full appreciation of entrepreneurship is impossible without a better understanding of international entrepreneurship associated with SMEs and small family businesses. This is important even for firms that are content to stay in the domestic market, because the world is getting more and more intertwined and global competitions are increasingly penetrating into everyone's backyard. In fact, the international financial market and venture capitalists are not segregated by the national boundaries. A financial crisis triggered in one country may have severe repercussions in other parts of the world. Many global participation strategies do not require firms to relocate into a foreign country (e.g., exporting, being a local supplier for larger MNEs, franchising and licensing), but a broader global strategic view will enable small business owners and managers to plan ahead and take proactive approaches to both the rising opportunities and potential challenges.

Finally from the cross-cultural research perspective, this study has addressed both commonalities and differences among individual entrepreneurs regarding their motives and predispositions to start new ventures, to follow a stage model towards gradual internationalization, or to embark as born globals. Following the institutional and resources-based theories of entrepreneurship, the study has identified and assessed some social institutional

factors and emerging changes in different societies that may facilitate or constrain the entrepreneurial endeavors. In this analysis, the study calls for more sophisticated research design and in-depth case studies to learn how these factors, especially the recorded institutional reforms, may influence small businesses and new ventures within the national context and across borders. The study has also demonstrated and assessed some unique advantages and major challenges of being young and small. These arguments and the contextual global strategic framework provide guiding principles for specific hypotheses development and future testing.

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