

---

## **The driving force behind entrepreneurship: An exploratory perspective**

G.J. de Klerk and S. Kruger

### **Introduction**

Not all entrepreneurs turn out to be successful. Many of them fail: they are not in a position to turn their business into a sufficiently profitable organisation; their ventures fail to survive the first period, or even worse, they go bankrupt. Is it because the real motives were in doubt or was it just a poor economic decision?

Determinants of entrepreneurial start-up and success can serve as an instrument to gain insight into the manner in which economic value can be enlarged. The question which remains, however, is why people risk everything. Is it because they want to be rich or is it because they want to render a service to other people? Again, it boils down to insight into the real driving force behind these determinants.

The aim of this paper is twofold. *Firstly*, it is an endeavour to get a debate started on the real driving force behind new business ventures, to set the scene for an empirical study on the driving force behind entrepreneurial endeavours (and to make a statement against a growing view that science in the economic field must always be supported by empirical evidence). *Secondly*, to provide a certain (South African) perspective on the well-known answers which are so readily available. In order to satisfy these objectives it is necessary to look at some of the developments of the concept of entrepreneurship and to make a choice for a working definition of the concept. To put the underlying motives into perspective, attention is given to the goal determining function of the business. Finally the tension between profit maximisation and servanthood is debated.

### **A bird's-eye view of the development of entrepreneurship thought**

#### *The classics*

Certain champions of entrepreneurship, such as Cantillon, Say, Marshall and Schumpeter were chosen subjectively. We thought they made a significant contribution to the debate on entrepreneurship and more specifically to the driving force behind starting a new business.

*Cantillon* was the first well-known economist to use the term entrepreneur in a precise way (Cantillon 1755). He was the first to place the entrepreneurial function in the field of Economics. The principle of profit maximisation immediately became part of the definition of an entrepreneur. Cantillon argued that entrepreneurs were directly involved in the equilibrium of supply and demand.

*Say's* theory of the entrepreneur in the nineteenth century came from his explicit opposition of the 'zero-sum game' economy: "They all take it for granted, that what one

individual gains must need be a loss to another; ... as if the possessions of abundance of individuals and of communities could not be multiplied, without the robbery of somebody or other" (Say 1971, p.70). Say recognised the managerial role of the entrepreneur. In the business the entrepreneur acts as leader and manager because he plays an important role in coordinating production and distribution. Wealth was part of the process and it did not mean that somebody had to suffer. Wealth was created by production. Within this vision, "... the application of knowledge to the creation of a product for human consumption" (Say 1971, p.330) is the function performed by the entrepreneur. This kind of action is necessary to set industries in motion to satisfy the needs of the community in order to earn wealth for the country. "A country well stocked with intelligent merchants, manufacturers and agriculturists has more powerful means of attaining prosperity" (Say 1971, p.82).

*Marshall* saw the task of the entrepreneur as the supply of commodities and at the same time the provision of innovations and progress. *Marshall* was convinced of the importance of innovations. Businessmen who started new enterprises often died as millionaires but they left society with benefits far beyond their own personal gains (*Marshall* 1930, p.598). The entrepreneur continuously seeks opportunities to make a profit through minimising of costs. He directs production, bears the risks and coordinates capital and labour. The entrepreneur is both manager and employer and he must be able to act promptly and adapt quickly to change without becoming unreliable. The entrepreneur should be "a natural leader of men" (*Marshall* 1930, p.206–207)

*Schumpeter's* major contributions to the theory of entrepreneurship are included in his book *The Theory of Economic Development*, first published in 1911. *Schumpeter* argued that innovation meant doing more with the same amount of resources. It can be seen as an endogenous process. *Schumpeter* believed entrepreneurship did not only mean management of the firm but, more importantly, leadership of the firm. He, therefore, was responsible for the continuous improvement of the economic system.

Being an entrepreneur is neither a profession, nor a lasting condition. Entrepreneurs do not form a social class, though successful entrepreneurship may lead to certain class positions, according to the way in which the proceeds of the business are used. *Schumpeter* regarded the entrepreneur as the decision maker in a particular cultural context – therefore entrepreneurship is a temporary position for any person, unless he continues to be innovative.

*Knight* contributed significantly to the theory of entrepreneurship in his publication *Risk, Uncertainty and Profit* in 1921. He saw the entrepreneur as the contributor of savings to society by bearing all the uncertainty. He takes responsibility for decisions he made. He mixes the factors of production and determines their remuneration. Entrepreneurship requires the ability to bear uncertainty as well as the availability of enough capital to pay the remuneration which has been demanded by the owner or other investors. The entrepreneur bears the risk of changing consumer needs and is held responsible for economic progress (*Knight* 1971, p.260–279).

According to *Kirzner* (1973), the entrepreneur fills a very important position within the market process. His ideas are summarised in his 1973 publication *Competition and Entrepreneurship*: "One of our complaints concerning contemporary theories of price

arises from their virtual elimination of entrepreneurship. What is required, I have argued, is a reformulation of price theory to readmit the entrepreneurial role to its rightful position as crucial to the very operation of the market” (Kirzner 1973, p.75).

Kirzner’s contribution to the theory of entrepreneurship was a rediscovery of the classics. He stated that entrepreneurs are the persons in the economy who are alert to discover and exploit profit opportunities. They are the equilibrating forces in the market process.

Entrepreneurs are producers of products or services. They are entrepreneurs only if they make discoveries and if they also make a profit out of these discoveries. “The entrepreneur is no longer only a pure entrepreneur; he/she has become, as a result of earlier entrepreneurial decisions, an owner of resources” (Kirzner, 1973, p.52–53).

Kirzner's entrepreneur requires no special ability or personality to carry out his function; *the pure entrepreneur could even hire all the required labour and business talent*. Entrepreneurship requires, however, a very special type of knowledge.

Table 1 summarises the determinants of successful entrepreneurship as discussed in each of the classic theories:

Alertness, foresight, risk bearing, sufficient capital, judgement, knowledge, perseverance, innovation, leadership, own capital, good luck and creativity.
--

*Table 1: Summary of determinants of classic entrepreneurship*

### *The contemporaries*

How difficult it is to get a definition of entrepreneurship which will satisfy the majority of academics can be derived from the following: *Barnett* (1993, p.8) investigated the viewpoints of more than seventy authors on entrepreneurs and entrepreneurship and comes to the following conclusion. “An attempt to arrive at a consensus definition from the literature on entrepreneurship encounters...the ‘untidiness of views’ on the subject.” (Kent 1990, p.1) comes to the conclusion that: “Entrepreneurs have been equated with heffalumps...no one has been able to precisely describe them or state for certainty what they are.” Furthermore, the ideas of the modern schools of thought are not quite original. Again, the choice of authors is very subjective.

*Jennings* (1994) prefers not to define an entrepreneur or entrepreneurship but instead focuses on a multiple perspective. His argument is that the field of entrepreneurship needs multiple paradigms that are different because entrepreneurial research serves a variety of purposes.

*Hisrich* and *Peters* (1998) see the entrepreneur as someone who creates something new which has value by devoting time and effort, assuming the accompanying financial, physical and social risks and receiving the resulting rewards of monetary and personal satisfaction and independence.

“An entrepreneur is a person who sees an opportunity in the market, gathers resources and creates and grows a business venture to satisfy these needs. He or she takes the risk of the venture and is rewarded with profit if it succeeds” (*Nieman* 2002, p.58).

Wickham (1998, p.25) refers to entrepreneurship as “...bringing about change and making a difference. ...Entrepreneurship is about exploiting innovation in order to create value which cannot always be measured in purely financial terms.” This definition links to the previously discussed viewpoints: entrepreneurship is a way of behaving, to add value through innovative actions. He comes to the conclusion that entrepreneurial management is characterised by its holistic, whole organisational scope – its mission is creating change by exploiting opportunities. Entrepreneurship is therefore innovative behaviour and not ownership, not a specific job, not a certain type of work.

Timmons (1999, p.27) refers to the “classical” viewpoint that entrepreneurship means new venture creation and illustrates that in fact entrepreneurship is something quite different: “Entrepreneurship is a way of thinking, reasoning, and acting that is opportunity obsessed, holistic in approach, and leadership balanced”. (However, Timmons then goes on and writes about the elements and activities concerning new venture creation!).

For the purpose of this paper, entrepreneurship is defined as: The firm commitment to create something with intrinsic value which will satisfy a real need in the market. It is a continual process using innovative ideas combined with knowledge, leadership and the ability to bear the risks involved to mix resources in an enterprise which will create and distribute consistent value to individuals, groups and the community at large. It is the behaviour of a person who displays the traits necessary to serve all the definitions of entrepreneurship.

Finally, the determinants of entrepreneurship are summarised in Table 2.

Alertness, foresight, risk bearing, sufficient capital, sufficient knowledge, judgement, creativity, innovations, ambition, vision, decisiveness, determination, dedication, value(s), adaptability and reward.

*Table 2: Final summary of determinants of entrepreneurship*

The entrepreneurial process derived from the definitions and key determinants can be as follows:

- Innovation and creativity
- Taking risk
- Reating and growing a business
- Managing the business
- Identifying an opportunity
- Gathering resources
- Distributing consistent value
- Being rewarded

With the description of entrepreneurship and the process in mind, the goal determining function of the business can be put under the spotlight.

**The goal-determining function of the business**

*Basic point of departure*

The goal-determining function of the business can hardly be separated from the goal-determining function of Economics as a scientific subject. Economic activity is aimed at the fulfilment of needs and is motivated by the compensation the entrepreneur receives. From the so-called economic principle of as much gain with minimum pain the

goal-determining function of economy can be derived as effectiveness. It is an intentional effort to employ the relatively scarce sources of nature as effectively as possible in order to satisfy the almost limitless needs of man. The ability of the business, whether it is small, medium or large, to fulfil its mission, invariably leads to satisfaction of consumer needs, profits for the owner(s) and remuneration for the employees.

Whenever a transaction takes place, economic activity occurs. A transaction emanates from the needs of the individual and the willingness of someone to satisfy that need. These transactions do not take place in a vacuum but in *cells* with certain characteristics derived from the way the factors of production are combined. These cells we call businesses.

Man, irrespective of his developmental level, has almost limitless needs. The more primitive man is, the closer he is to nature and the simpler the process of need-satisfaction. To appease his hunger he has to make use of the available means in nature. He can, for example, catch fish or gather the edibles which exist in nature. However, as the needs become more sophisticated, so the demands set by the consumer increase and become more complex. The natural products in their untouched form are no longer good enough. To satisfy these more sophisticated needs, it is necessary to change the form and appearance of these scarce commodities in nature so that they furnish utility of form. The consumer, however, also expects utilisation of time, place and possession. Concisely, the consumer expects a product in a form which satisfies his need, but also at a specific time and a particular place where the product can be seen and tested (touched, tasted and savoured, et cetera).

The definition of a business must then be:

A business refers to the institution where economic activities take place in a planned and organised manner, so that capital which is invested in the activities is effectively applied to the satisfaction of the stakeholders and, in reply to the needs of the consumer, products and/or services are produced in an economic environment. It is therefore a production unit where production factors are physically assembled for the most effective production possible and products and services, determined by the demand, are offered and sold (with an ever-present risk factor) in the marketplace.

### *The driving force behind the business*

The question now is: How does it all happen? Why are people prepared to satisfy the needs of others? The willingness of certain people (businesses) to take the risk of satisfying the needs of others, stems from the possibility of doing it effectively so that it leads to greater wealth for themselves and eventually also for the community. The profit motive still acts as one of the greatest motivators to do business. A healthy and responsible ambition for self-gain is not necessarily wrong and should not be camouflaged by all types of statements of a purely service-motivated nature. The basic consideration, therefore, is still to effect the highest possible need-satisfaction with limited means. To the point, it is known as the economic or economical principle. Bridging the gap between the consumer and the source for need-satisfaction, irrespective of the distance, takes place according to the economical principle.

### *The goal of the business in perspective*

From the beginning it was clear that the economy should never be seen in isolation. It is therefore not wrong to define the goal-determining function of the business as effectiveness. Effectiveness may not, however, become an obsession without any regard for the employees, the consumers and the community at large.

For the business to function, the economical principle serves as the criterium of effectiveness. However, economical principle here implies maximum effectiveness or profitability. It means that it must be aspired to at all costs or any price. Man admittedly plays an important part but his needs and their satisfaction must always be seen in the light of his relationship with his environment (in the broadest sense of the word).

Can we thus conclude that profit and the accumulation of wealth are the only and final goals of the business? Very few scholars in the field of Economics and Business would be satisfied. The most recent debate on whether organ farms must be allowed and how organs will be marketed illustrates the point that not everything can be allowed on the basis of efficiency and profit alone.

### *The tension between profit maximisation and servanthood*

Since the eighties of the 20th century, ethics in business received renewed attention. Taking into account that the quest for proper conduct in business also affects the motive(s) for entrepreneurial behaviour, the equation of the final motive becomes more complex.

Ethics and ethical behaviour is dependent on the set of values of the person involved in the action. Applied to the motives of the entrepreneur it can be argued that different groups would react differently (ethical relativism). For instance, in South Africa, where more than 80 per cent of the inhabitants are Christians, it is common to hear the following argument: Material matters cannot be the final goal but merely a means by which the God of the Bible can and must be served. It only becomes possible if the entrepreneur sees him- or herself as a steward. Stewards are appointed by God to manage His possessions (because everything belongs to Him) in accordance with His will. Something similar can happen where obedience to religion can change the egoistic approach to a more altruistic one.

The relationships between religion and economics are both complex and controversial. On the first page of his *Principles of Economics*, Alfred Marshall (1930) wrote: “[M]an’s character has been moulded by his every-day work, and the material resources which he thereby procures, more than by any other influence unless it be that of his religious ideals: and the two great forming agencies of the world’s history have been the religious and the economic.”

The complexity of the relationships of religion to economics, the fact that conflicting explanations have been given for how they relate – perhaps because the explanations were based on an explicit or implicit assumption that they can relate in only one way; and the significant roles they play in a changing world, have encouraged academics through the centuries to probe further into the subject of their relationship.

This does not, of course, suggest that Protestantism has ever known theological unity. Even among pious Calvinists, whom Weber saw as the chief carriers of secular asceticism, interpretive disputes about theological matters were always present.

This powerful intellectual construction, this ethic of ceaseless work combined with ceaseless renunciation of the fruits of one's labour, provided both the economic and the moral foundations for modern capitalism. On the one hand, secular asceticism was a ready-made prescription for building economic capital; on the other, it became the social myth, the ideology that justified their attention to this world, their accumulation of wealth, and indeed the social inequities and unethical behaviour that inevitably followed such accumulation.

With the shaping of the mass consumer society later in this century, accompanied by the commercialisation of leisure, the sanctification of consumption fueled by consumer debt became widespread, indeed crucial to the maintenance of the economic order. The result was that even the so-called religious businessmen conformed to profit maximisation.

The reengineering of ethical behaviour in business, however, made the question of servanthood as the proper motive for any new venture a legitimate one.

In a study by Bucar and Hisrich (2001) on ethical attitudes and standards of entrepreneurs, they concluded that: "Generally, entrepreneurs and managers differed only slightly in their views regarding the ethics of various activities and their ethical perceptions regarding others. There were few differences in the two groups regarding their evaluation of the ethical nature of twelve circumstances and seven scenarios. The similarities in ethical attitudes between the two groups of decision-makers seem to be one of the important findings, which can be explained by similar legal, cultural and educational factors that affect ethical attitudes of both groups. However, there are some significant differences that consistently indicated that entrepreneurs are more prone to hold ethical attitudes.

The findings indicate that managers need to sacrifice their personal values to those of the company more than entrepreneurs. Also, entrepreneurs consistently demonstrated higher ethical attitudes in the internal dealings of the company, such as not taking longer than necessary for a job and not using company resources for personal use. These findings are consistent with the theory of property where we would expect someone to be more ethical in dealing with his/her own property" (Bucar and Hisrich 2001, p.78).

## Conclusions

- It is necessary if not imperative that the *debate* on the proper motive for starting a business must continue. Our predecessors did not give us the final answer and it would be academic arrogance to believe that we would be able to give the final answer.
- It is inevitable that regarding the subject of this paper there is a need for:
  - Greater consensus on the concept of *entrepreneurship*
  - A better answer to the *goal-determining function* of the business
  - Adequate consensus on the real *driving force* behind entrepreneurial endeavours.

- Derived from the views argued in the paper the following hypotheses are suggested:
  - There is a growing movement towards a more result-orientation and value-driven approach in the economic and business world
  - That people will start a new venture not only because they want the money but because they can serve their fellow man, conserve nature and make a contribution to the redistribution of wealth
  - Ethical behaviour is part and parcel of entrepreneurship
  - In a country (such as South Africa) where entrepreneurship is encouraged, the ethical standards can be lifted
  - Sustainability of the enterprise will be improved if the most important motive to begin the business is inclined towards servanthood
  - The values of the Bible relevant to this topic are universal enough to be taken into cognisance in the formulation of the motives behind entrepreneurship
- As definition for entrepreneurship we suggest the following: All the activities which a person will perform to start a new endeavour with motives varying according to the locality, culture, personality, prevailing circumstances, set of values, religious orientation and ethical sensitivity of the person involved.

These hypotheses will be tested in a research program already underway.

## References

- BARNETT, C.G.: *Defining Entrepreneurship*. Unpublished paper delivered at the 7th annual conference of small business, Southern Africa 1993.
- BUCAR, B., HISRICH, R.D.: Ethics of business managers vs. entrepreneurs, in: *Journal of developmental entrepreneurship*. 6 (1), April 2001.
- CANTILLON, R.: Essai sur la Nature du Commerce en Général, in: TAKUMI, T.: (Ed.), Tokyo: Kinokuniya bookstore Co., 1979.
- DRUCKER, P.F.: *Innovation and entrepreneurship: Practice and principles*, Oxford: Butterworth Heineman Ltd., 1994.
- HISRICH, R.D., PETERS, M.P.: *Entrepreneurship*. 4th ed., Boston: Irwin/McGraw Hill, 1998.
- JENNINGS, D.F.: *Multiple perspectives on entrepreneurship: text, readings and cases*. Cincinnati: South Western, 1994.
- KNIGHT, F.H.: Risk, uncertainty and profit, in: G.J. STIGLER (Ed.), Chicago: University of Chicago Press, 1971.
- MARSHALL, A.: *Principles of economics*. London: Macmillan and Co., 1930.
- NIEMAN, G.: The entrepreneurial process, in: NIEMAN, G., BENNET, A. (Eds.): *Business management: a value chain approach*. Pretoria: Van Schaik, 2002, pp.57–72.
- SAY, J.B.: *A treatise on political economy or the distribution and consumption of wealth*. New York: A.M. Kelly Publishers, 1971.
- SCHUMPETER, J.: *The theory of economic development*. Cambridge Mass.: Harvard University Press, 1934.
- WICKHAM, P.A.: *Strategic Entrepreneurship: A decision making approach to new venture creation and management*. London: Pitman, 1998.