

Entrepreneurship and Development – Do We Really Know Which Entrepreneurship Types Contribute (Most)?

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1. Introduction

As Baumol (1990: 177) pointed out in his seminal contribution, entrepreneurship can take various forms, and not everything labelled as ‘entrepreneurial’ might be desirable from a macroeconomic and societal perspective. This poses the questions of which types of entrepreneurial activities will have the greatest effects on economic development. This paper revisits the commonly held assumption that we can distinguish types of entrepreneurship in relation to their contribution to economic growth respectively development. The paper departs from a critical review of concepts which explicitly and implicitly have dominated the “entrepreneurship and economic development” debate over the past years, in particular the motivation-based distinction between push/pull or opportunity and necessity entrepreneurship, where opportunity-based entrepreneurial activities are considered to positively contribute to employment growth and innovation and vice versa, and the concept of productive and unproductive entrepreneurship. The main argument presented in this paper is that the dichotomy of these and similar concepts, albeit facilitating empirical application, needs to be set aside in favour of a contextualised perspective which understands and models the links between entrepreneurship and development as temporally and situational bounded.

Section 2 reviews the concepts of push/pull, opportunity/necessity entrepreneurship, proprietorship versus entrepreneurship and productive/unproductive entrepreneurship, while section 3 outlines some shortcomings, illustrated by evidence from own research projects. Section 4 concludes with suggestions as to how to move beyond entrepreneurship typologies in the discussion on the link between entrepreneurship and economic development.

2. Types of Entrepreneurship and Economic Development: A Conceptual Review

2.1 Pushed or pulled, necessity- or opportunity-driven – Who contributes (more) to economic development?

Several micro level studies have investigated individual motives for entering entrepreneurship as one possible predictor for later performance, distinguishing between, for example, push and pull entrepreneurs (Amit and Muller 1995) or necessity- and opportunity-based entrepreneurs (Block and Koellinger 2009). The latter has been developed in the context of the Global Entrepreneurship Monitor (GEM), where since 2001, GEM surveys have asked respondents to indicate whether they started and grew their business in order to “take advantage of a business opportunity” or “seek better opportunities”

(*opportunity entrepreneurship*) or “because you have no better choices for work” (*necessity entrepreneurship*) (Reynolds et al. 2002: 12). Similar to researchers that have identified push- and pull motivations, GEM authors view opportunity-based entrepreneurship as reflecting a voluntary career choice, whilst necessity-based entrepreneurship is a decision based on other options not being available, or judged to be unsatisfactory. The former refers to so-called ‘reluctant entrepreneurship’, where people are pushed into business ownership because they have actually lost employment, or are threatened with redundancy. Depending on the opportunities for alternative employment, entrepreneurship is viewed essentially as a survival strategy. This also resonates with Scase (1997; 2003) who distinguishes between proprietorship and genuine entrepreneurship in the context of transition economies, where proprietorship would be reflected in notions such as starting a business in order to sustain a family or to raise income, in situations where individuals have no better work options. It can also be connected to spells of unemployment or hidden unemployment or taking up business activities additional to their waged employment, in order to supplement income. In that case, entrepreneurs would have little surplus income to invest in developing their ventures and would use business income to sustain themselves and their families. Entrepreneurship, as understood by Scase, would include entrepreneurs who reinvest business income into their ventures, aiming at business development.

One of the issues that arise from this type of analysis is the relationship between the motives for starting a venture in the first place and its subsequent performance. Amit et al. (1996: 2), for example, suggest that “the decision to start a new venture gives a strong basis for predicting the likely success.” For decades, research has used business motivations to construct taxonomies of entrepreneurs, in order to identify distinctive entrepreneurial behaviour, including an orientation towards business growth (e.g., Cooper and Dunkelberg 1986; Stanworth and Curran 1976). Some studies have explicitly investigated the relationship between business and/or personal goals and subsequent enterprise development (e.g., Dahlqvist et al. 2000; Delmar and Wiklund 2008; Wiklund and Shepherd 2003). Delmar and Wiklund (2008) found a positive relationship between an individual’s intention and realized growth, at least for employment growth, arguing that one needs to take into account the moderating role of resources and availability of opportunities, as well as an individual’s intention to grow. Based on GEM data, Autio (2005: 33) shows that necessity motivation appears to influence expectations for business development, with low expectation nascent entrepreneurs more than four times as likely to indicate a necessity motivation compared to high expectation nascent entrepreneurs. On the contrary, Dahlqvist et al. (2000), as well as Solymossy (1997), in a study on Hungarian entrepreneurs, conclude that initial start-up reasons are not a reliable indicator of subsequent survival, size or growth respectively.

Other studies show that entrepreneurs who set up businesses because they are unemployed contribute to employment for the business owners, but not to economic growth (e.g., Van Stel and Storey 2004). Also, necessity-based entrepreneurship was shown to vary significantly between countries respectively country groups, with necessity entrepreneurship decreasing with increasing economic development and a stable business environment: “The average pattern (...) is of a decline in overall levels of early-stage entrepreneurial activity with increasing economic development, and relatively low levels of necessity entrepreneurship in innovation-driven countries.” (Bosma and Levie 2010: 19), while the current recession contributed to levels of necessity entrepreneurship (Bosma and Levie 2010: 6). In general, studies based on GEM data (e.g., Acs and Varga 2005; Wennekers et al. 2005; Wong et al. 2005) tend to view so-called necessity entrepreneurship as a more negative factor as far as national growth and development are concerned.

However, economic theory has suggested that increased unemployment which would result in higher levels of necessity-driven entrepreneurship could also foster economic development because it would lead to increased entry into entrepreneurship as the opportunity costs of starting a business are decreased (Evans and Jovanovic 1989). Several macro level studies have investigated this relationship between unemployment and entrepreneurship (e.g., Evans and Leighton 1989; Reynolds et al. 1994). Bögenhold and Staber (1990) demonstrated a positive correlation between self-employment and unemployment across various OECD-countries where unemployment might have acted as an additional push factor to motivate a business start. Other authors have questioned this evidence indicating negative relationships between unemployment and the self-employment rates for various countries and regions (e.g., Blanchflower 2000). In reviewing such studies, Storey (1991: 177) pointed to methodological issues, where the positive correlation between growing unemployment and a growth in venture creation rates is mainly confirmed by time series analysis, while cross sectional studies appear to indicate the reverse. Meager (1992) came to a similar conclusion, based on an Anglo-German comparison, showing that whilst unemployment acts as a push factor for self-employment, falling economic activity acts as a damping influence on self-employment. Recently, Thurik et al. (2008) found for 23 OECD countries two distinct relationships, namely the “refugee” and “entrepreneurial” effect: While unemployment rates may result in higher start-up activity, this “refugee effect” is considerably weaker than the subsequent “entrepreneurial effect” which reduces unemployment in later periods because of increased entrepreneurial activity. Blanchflower (2004: 7) summarised the discussion by stating that “It does seem then that there is some disagreement in the literature on whether high unemployment acts to discourage self-employment because of the lack of available opportunities or encourage it because of the lack of viable alternatives.”

2.2 Is it productive or unproductive entrepreneurship that fosters economic development?

According to Baumol, the economic contribution of entrepreneurship depends on the allocation of entrepreneurship between productive and unproductive entrepreneurial activities, with the respective (country) context having a major impact on this allocation (Baumol 1990: 3): “But there are a variety of roles among which the entrepreneur’s efforts can be reallocated, and some of those roles do not follow the constructive and innovative script that is conventionally attributed to that person. Indeed, at times the entrepreneur may even lead a parasitical existence that is actually damaging to the economy. How the entrepreneur acts at a given time and place depends heavily on the rules of the game-the reward structure in the economy-that happen to prevail.”

Productive entrepreneurship includes any activity that indirectly or directly contribute to economic output or the capacity of the economy to produce additional output (Baumol 1993: 30). Unproductive and destructive entrepreneurship includes, but is not limited to, rent seeking, illegal activities and shadow activities or different forms of corruption. Oftentimes, and for reasons of empirical assessment, productive activity is understood as legal, registered business and any illegal or informal types of entrepreneurial ventures are seen as unproductive because little, if any, value is added to the economy and society (Baumol 1993). Moreover, these activities circumvent and defy the legal and normative framework of a society and will have a destructive role in an economy in those cases where they attract followers.

Generally, productive entrepreneurship is seen as an “essential factor of the economic performance of a country.” (Davidsson and Henrekson 2002: 1), although most entrepreneurship research assumes a direct link between entrepreneurial activities at micro level and economic development at macro level. In this regard, Davidsson and Wiklund (2001) suggest a four-fold typology of enterprises (Figure 1), which differentiates between outcomes of entrepreneurial activities at either the micro level (venture) or the macro level (society). Two of these enterprises contribute nothing at society level, namely “robber” and “failed” enterprises. Only the “hero” enterprise contributes at both society and venture level: they introduce new products or services and also create personal income and wealth. Referring this back to Baumol’s concept, the “hero” category is analytically unproblematic (Davidsson 2004) and can be classified as productive entrepreneurship, although entrepreneurs within this category also might apply ‘unproductive’ strategies during venture development. The catalyst enterprise represents a mixture of productive and unproductive outcomes: Catalyst enterprises are unsuccessful at firm level, but contribute to macro level development. This could include ideas and methods developed by one enterprise which however does not generate profit, and where these ideas are imitated and successfully exploited by others (Davidsson and Wiklund 2001).

Figure 1: New Enterprise Outcomes on Different Levels

		Venture level outcome	
		+	-
Societal level outcome	+	I Hero or success enterprises	II Catalyst enterprises
	-	III Robber or re-distributive enterprises	IV Failed enterprises

Source: Davidsson and Wiklund (2001).

However, Davidsson (2004: 14) points out that “(...) we have to live with the fact that in real economies ‘legal, yet re-distributive’ and ‘illegal, yet societal beneficial’ are both possible.”, thus highlighting the difficulties of developing clear-cut categories. For example, take a closer look at failed enterprises: are they really unproductive? Certainly in a short term perspective: Failed enterprises initially do not contribute to macro development. But, might change in the long run if these entrepreneurs learn from their failure and start again, this time successfully (Sauka and Welter 2007).

3. Why is it so Difficult to Determine which Entrepreneurship Types Contribute (Most) to Economic Development?

Several of the research projects I have been involved in over the past years, highlight the difficulties of adequately distinguishing between opportunity/necessity-based entrepreneurs (or push/pull, proprietorship/entrepreneurship) or productive/unproductive entrepreneurship. For example, a study of women entrepreneurs in Ukraine, Moldova and Uzbekistan (Welter et al. 2006) shows that women entrepreneurship is stimulated by both a desire for personal autonomy and an economic necessity. This is reflected in women having a variety of motives to start a business, where both push and pull factors appear to overlap, which supports the view that these categories should not be viewed as being mutually exclusive, but rather that entrepreneurs set up and develop a business for a variety of reasons, depending on their situation, the external environment and access to resources and skills.

Moreover, empirical evidence also demonstrates that entrepreneurs neither fit neatly into the proprietor or entrepreneur categories. Instead, case evidence from several projects shows more complex relationships between entrepreneurship as an economic necessity, or responding to potential market niches, and a desire to realise a ‘dream’ at start up; and during business development entrepreneurs ‘switch’ between either of these categories (e.g., Welter and Smallbone 2008). For example, both cases in Box 1 demonstrate the difficulties involved in clearly identifying categories for the entrepreneurs and thus determining (or even predicting) their contribution to macro development: Their entry into entrepreneurship was both push and pull-motivated, they showed both more of proprietorship behaviour in the first years, but they always exhibited entrepreneurial skills as well. In terms of their contributions to economic development, both created their own employment, Case A catered for local demand while Case B, over time, also contributed to innovation and created new jobs.

Box 1: Between necessity entrepreneurship, proprietorship and opportunity-driven entrepreneurship

Case A: This entrepreneur in the Namangan region in Uzbekistan set up her business in 1993, specialising in sewing and selling national costume (chapans) and children trousers. The entrepreneur is 47 years old and had been teaching at a school for 27 years before starting her own business. Venture creation was motivated both by a demand for higher quality goods at the beginning of the 1990s, as perceived by the entrepreneur, and by her need to supplement her teaching salary. Whilst initially the business was profitable, this changed after 1997, due to an increase in competition from illegal firms. The entrepreneur responded by planning to give up her sewing production and instead, settling on food processing, i.e., drying tomatoes and processing tomato paste, which she considers more rewarding in terms of income under the current economic circumstances. In this case, her current entrepreneurial activities appear to be driven by ‘necessity’ reasons, as the need to generate income appears to be the key driver.

Case B: This entrepreneur is 54 years old and was born in East Germany, in the former German Democratic Republic. After finishing school, she trained as retail saleswoman and worked as a general manager of a supermarket. With reunification, the entrepreneur lost her former job. She started further education, in order to learn about market economies and business management. After her degree, she worked in the commercial cleaning branch. She was responsible for organizing the cleaning of a big supermarket chain in her region; and this constituted her first contact with the commercial cleaning branch – retrospectively an important time for her to gain sector knowledge and experiences for her own business, although she never considered having her own business at that time. After four years, she again lost her job because of internal restructuring of the company. At the same time, her marriage broke up. “That was the moment I thought about becoming self-employed for the first time. I thought I can do on my own what I’ve done before on my job.” Shortly after her second spell of unemployment, in 1995, she started out as a self-employed cleaning lady and additionally trained as ‘Meister’ at the same time in order to set up a business in the commercial cleaning sector. Over time, word-of-mouth recommendation led to more and more jobs, resulting in her hiring more and more employees. But the entrepreneur also experienced health problems because of her

constant contact with aggressive chemicals which led her to experiment with various natural substances. She developed a natural cleaning powder based on beetroot as renewable raw material. In 2003, she obtained the German patent for her manufacturing method and the composition of the cleaning powder, in 2005 the European patent.

Source: Case A reported in Welter and Smallbone (2008), case B from Ettl and Welter (unpublished manuscript).

It is equally difficult to empirically distinguish between productive and unproductive entrepreneurs. Baumol (1990) generally classified innovation as productive activities and rent-seeking or organized crimes as unproductive ones. However, research on entrepreneurship in post-socialist countries illustrates the complexities and fallacies of this concept. Several studies in transition contexts, where the business environment is characterised by turbulence, ambiguity and uncertainty, have demonstrated that most new and small companies are actually involved both in productive and unproductive, in particular rent seeking, activities at the same time (e.g., Manolova and Yan 2002; Rehn and Taalas 2004; Smallbone and Welter 2001; Smallbone and Welter 2009; Welter and Smallbone 2009; Yan and Manolova 1998). Especially in early transition stages when legislation and rules are not yet in place and implementation gaps occur, defiance and avoidance strategies may be required to ensure the survival of the enterprise, but these strategies also could help entrepreneurs develop their activities from simple trading towards more substantial businesses as illustrated by the case reported in Box 2.

Box 2: Between productive and unproductive entrepreneurship

Case C: This firm is located in Zakarpattya in Ukraine. Since 2000, it has been an official representative of a Czech firm, selling second-hand clothes and footwear to a network of enterprises in Ukraine. By Ukrainian standards, it is a large supplier, ranking 13 in 2002. The company employs 11 persons, including four drivers in another small business providing cargo services. The entrepreneur is 37 years old. He attended the Kiev Institute of Light Industry, obtaining a degree from the Department for the Automation of Technological Processes. Since he was a teenager, he occupied himself with trading different goods in order to earn money. Already in 1991, he registered as an individual entrepreneur. At that time, he mainly was involved in – illegal – shuttle trade, but he refrained from elaborating on this in more detail. After having earned some capital, he opened a company (with friends) selling input material and accessories for the light industry in Kiev. When moving to Western Ukraine, he sold his share in that company and opened two enterprises, only one of which turned out to be successful. Nevertheless, for someone who started his life as a petty trader, this individual has acquired the attributes of a habitual entrepreneur.

Source: Welter and Smallbone (2009).

4. Outlook: Moving Beyond Typologies of Entrepreneurship

So far, the initial question of which type of entrepreneurship contributes most and has the longest lasting effects has not been answered in a satisfactory way. Entrepreneurship research tends to be rather inconclusive with regard to identifying clear cut typologies. The previous sections indicate a major difficulty with any of the typologies reviewed in this paper, namely the problem of categorizing ventures once and for all into either one of the categories, in order to determine their contribution to macro level development. This is because not all individuals will respond in similar fashion to similar circumstances. The specific decision making context they face may be influenced by their own previous experience and other antecedent influences, including their underlying attitudes towards running their own businesses, as well as by current external conditions and triggered by specific stimuli.

Entrepreneurship is a dynamic phenomenon, it is fluid, and it should be interpreted as a non-linear process. Therefore, static categories based on motivations, expectations and behaviours cannot (adequately) reflect the contribution of entrepreneurship to economic and social development nor do they

help in identifying that particular entrepreneur or entrepreneurial behaviour which contributes most. Although entrepreneurs might be primarily survival-oriented at one point during venture start or development, their personal ambitions and strategies could still be driven by 'genuine' elements of entrepreneurship. Nor does 'unproductive' behaviour prevent entrepreneurs from contributing to macro level development, as seen in the case of informal activities developing into more substantial and legalized ventures over time. In those cases, evasion strategies during the initial stage of venture creation helped entrepreneurs accumulate resources and thus contribute to employment or innovation in the long run. This needs to be taken into account for the discussion of which type of entrepreneurship contributes (most) to economic development.

But, if these categories are not mutually exclusive and if they change over time, if entrepreneurs "switch" between categories, because they learn and adapt their expectations and behaviour during venture development, where does that leave us when considering entrepreneurship and its contribution to economic development? Obviously, it is all forms of entrepreneurship that can contribute to economic and also social development, including those which entrepreneurship researchers (still too often) consider as non-productive *depending on when and where this particular type of entrepreneurship happens*. There is a need to recognise the co-existence of a multitude of motivations and entrepreneurial behaviours (Smallbone and Welter 2003; Williams and Round 2009), and their changes over time. With regard to the concept of unproductive and productive entrepreneurship, Sauka and Welter (2007) suggest to consider both output and entrepreneurial behaviour in order to decide whether something is productive or unproductive. They argue that in the current entrepreneurship literature there is no agreement as to whether Baumol's concept refers to activities only or to output or to both. This 'mix' of two different dimensions, activity and output, in combination with a blurred and often inappropriate use of terminology, could be a key to the problems in applying this concept empirically.

Understandably, politicians are more in favour of evidence which seems to demonstrate simple relationships between entrepreneurship and (economic) development, as they could attempt to influence those. However, any recommendations based on concepts such as opportunity-/necessity, push/pull or unproductive/productive entrepreneurship will be problematic unless the respective context is taken into account. In other words, if we contextualise these concepts, or in other words, acknowledge that they are bound by time and situations, we can continue using them.

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