

---

# Entrepreneurship Development: Report On Theories Of Entrepreneurship

## Entrepreneurship Development

### Abstract

The theory of entrepreneurship, also known as the entrepreneurial value creation theory, gives us details about the entire entrepreneurial experience, from the discovery of an entrepreneurial opportunity and the entrepreneurial intention, to the development of the entrepreneurial capabilities, and the realization of the entrepreneurial reward. The theory of entrepreneurship describes the entire process as a two-stage value creation framework. The first stage is the venture formulation, where the entrepreneur is driven by a desire for reward (entrepreneurial intention) and uses the resources at hand to sense an external stimulus. Many ventures are bound to fail at this stage. Now comes the second stage of venture monetization, where external resources such as strategic alliances and venture capital are acquired by the entrepreneur. To secure high valuations from investors, entrepreneurs may also use incentive inducements. A dynamic business model is essential to create a sustained entrepreneurial reward value.

The field of entrepreneurship development is strongly based on research and entrepreneurship theories. This report examines theories related to six domains along with an empirical study. This includes: (1) Resource-Based entrepreneurship theory, (2) Psychological entrepreneurship theory (3) Opportunity-Based entrepreneurship theory, (4) Anthropological entrepreneurship theory (5) Sociological entrepreneurship theory, and (6) Economic entrepreneurship theory. These theories give us insights at various diverse viewpoints. Here, we have attempted to give a critical review of these theories to show how they can be applied in the developing countries. Both the strong aspects and shortcomings are shown in terms of their implications. Entrepreneurship is taken as a term concept rather than an individual venture. Many parameters such as sociological aspects, biological theories like gender differences in start-ups and operation of ventures with an emphasis on taking risks is taken into consideration.

### Definitions of Entrepreneurship

The neo-classical as well as classical theorists have been trying to define entrepreneurship, but have still not been able to come up with a single definition. It all depends on the perspective of the one defining it, taking into consideration all the aspects surrounding the venture. Some researchers see entrepreneurship from the economic perspective, psychology and sociology, while others look at it from the management point of view. Hence, entrepreneurship can be considered as a multidimensional concept.

Some thought of entrepreneurs as responsible for all circulation and exchange in the economy. They are individuals who equilibrate supply and demand and during this process bear uncertainty or risk. Others regarded the entrepreneur as manager of a company, a provider in the production process. The principle quality being good judgement rather than emphasizing on a risky mindset.

---

An entrepreneur acts in a static equilibrium world, where they strive on the most favorable opportunities. The payoff to an entrepreneur may not be profits flows, but instead accruing a recurring wage to a scarce labor type (for a greater cause). Here the entrepreneur role is separated from that of a capitalist.

## The Entrepreneurial Value Creation Framework.

The entrepreneurial value creation theory analyzes the details of the entrepreneurial process using a two-stage appropriate and value creation framework.

The first stage is the venture formulation, where the entrepreneur is driven by a desire for reward (entrepreneurial intention) and uses the resources at hand to sense an external stimulus. Opportunities are reconfigured to develop an entrepreneurial competence providing an asymmetric advantage. This developed competence is not constrained to follow the valuable resource-based theory, primarily the VRIN conditions (valuable, rare, inimitable, and non-substitutable conditions). Entrepreneurs will engage in a idea with a sense of purpose throughout this stage and they will reach out to only their close social network through a concept known as bricolage where resources are traded and shared. In short, they will make do with only the resources that are available to them and seek assistance from others surrounding them. The entrepreneurial competence created in this stage gives a differential edge to the entrepreneur for moving on to the second stage.

The second stage is the venture monetization, where external resources such as strategic alliances and venture capital are acquired by the entrepreneur. They also build and acquire complementary dynamic capabilities if necessary. These dynamic capabilities built within the business model sustain the value creation and entrepreneurial reward.

In stage one, the entrepreneur discovers an external opportunity that has potential value. The entrepreneur may not be an inventor necessarily, but should be willing to manage and take risk in a new venture. They should sense an opportunity and leverage the resources at hand to create entrepreneurial competence. The opportunity is exogenous to the entrepreneur and the entrepreneurial process. This process is iterative until a real marketable opportunity is found and sufficient resources and competence is developed for stage two. The intentions for the entrepreneur may arise from their values, goals, desires, dreams, attention, planning and their interactions/dependency with the peers. This stage portrays a relationship between intentions and entrepreneurial opportunities. More the number and types of opportunities, the likelihood that entrepreneurial intention will emerge are increased. The absorptive capacity of a capitalist source is directly linked to the venture opportunity and resulting competence. The drivers of entrepreneurship intentionality such as flexibility, dependency, entrepreneurial passion, self-efficacy and resiliency impact on the likelihood of a successful venture.

In the second stage, dynamic capabilities drive the value creation and finally the entrepreneurial reward can be realized. The sub-processes are iterative to sustain value creation and make the reward knowledgeable. The greater likelihood of a venture's survival depends on how fast the product is released in the market or when the business achieves positive cash flow. The venture failure rate can be predicted on the estimation of risk of investment loss. The elements such as resource efficiency, resource novelty, product market complementarities and customer lock-in are linked to the business survival and growth rate as well as the valuation offers received by

---

external investors during the financing rounds.

## Various Dominant Theories

### Economic Entrepreneurship Theories

The economic entrepreneurship theory has its origins in the Austrian market process (MP), along with the classical and neoclassical theories of economics.

The classical theory was the result of Britain's industrial revolution which extolled the virtues of competition, specialization and free trade. This movement displaced the entrepreneur role through the context of production and distribution of products in a competitive market. The theorists articulated 3 major modes of production: capitalist, land and labour.

The neo-classical model stems from the drawbacks and criticisms of the classical theories. They believed that the economic concept could be relegated to basis of pure exchange, reflect optimality ratios and realised in a system that was basically closed. The economic system comprised of the exchange occurrences, participants, and impact of the exchange results on other market factors which was coupled with diminishing marginal utility.

The MP model stressed on human action in the context of an economy. MP denied the assumption of circumstances leading to the same outcomes in an economic system since they are not repeatable. It holds entrepreneurs to use episodic knowledge to generate value. The MP was based on 3 main concepts: the first was an arbitraging market in which opportunities show up for true entrepreneurs as others may overlook it, the second was alertness towards profit and marketing opportunities which entrepreneurs discover and take advantage of, and the third was that entrepreneurs show a distinct quality of ownership.

### Psychological Entrepreneurship Theories

These theories are based on personal characteristics of individuals that define entrepreneurship. Need for achievement, personality traits and locus of control are studied and empirical evidences have found to be inclined towards entrepreneurship. These are innovativeness, tolerance for ambiguity and risk taking. Personality traits are defined as "stable qualities that a person shows in most situations". Some important traits found in entrepreneurs are they show high levels of creativity and innovation, tend to be more opportunity driven, have very good management skills along with a sound business know-how. They have also found to be hard workers, have mental energy and are emotionally resilient, optimistic, show intense perseverance and commitment, desire improvement and are dissatisfied with the status quo, thrive on competitiveness with a desire to excel, entrepreneurs are life long learners, being transformational in nature who use failure as a tool and springboard.

Locus of control is an important concept of individual personality. Its perception stems from the underlying causes of events in an entrepreneur's life. It is a belief about the outcomes of the actions of an entrepreneur are contingent on what they do (internal control orientation) and also events not under personal control (external control orientation).

The need for achievement theory emphasises on the fact that human beings have an evolutionary

---

need to achieve, excel, accomplish and succeed. Entrepreneurs are driven by this need and are inspired more than others. There is evidence for achievement motivation being closely correlated to entrepreneurship since it is the only convincing personological factor for new venture creation.

## **Sociological Entrepreneurship Theory**

These theories are based on sociological enterprise focus on the analysis of traditional society structures. Four social contexts were identified that are closely related to entrepreneurial opportunity. The first one is social networks which focuses on building bonds and social relationships that promote trust rather than opportunism. Entrepreneurs should not take advantage of other people to be more successful.

The second refers to the context of the life course which involves analysing life scenarios and individual characteristics of entrepreneurs. The thought and action of the people could be influenced by their experiences and motivation to do something meaningful.

The third context refers to ethnic identification. The sociological background of any entrepreneur is one of the decisive "push" factors, it determines how far he/she can go. Spurred on by their underprivileged backgrounds, marginalized groups may violate all obstacles and push for success to make life better.

The fourth context is based on population ecology. The concept is that for the survival of a business, the environmental factors play an important role. Some of the environmental factors are employees, customers, competition, political systems and government legislation, which have a major impact on the operations of any new venture.

## **Anthropological Entrepreneurship Theory**

Anthropology is basically the study of the origin, customs, development, culture and beliefs of a community. This theory states that social and cultural structures of the surrounding community should be examined and analysed thoroughly for an entrepreneur to successfully initiate a venture. Entrepreneurial attitudes like innovation which led to venture creation may find their roots in cultural practices. Ethnicity also affects the behaviour and attitude of people and culture reflects particular social, ecological, economic, ethnic and political complexities amongst people.

## **Opportunity-Based Entrepreneurship Theory**

An opportunity-based approach provides a wide-ranging conceptual framework for entrepreneurship research. Entrepreneurs exploit the opportunities that create change. They have an eye for more possibilities created by the change rather than problems. This construct also emphasizes on resourcefulness. "Pursuit of opportunity without regard to resources currently controlled" is the hub of entrepreneurial management.

## **Resource-Based Entrepreneurship Theories**

According to the resource-based theory, an important predictor of opportunity based new growth venture is the access to resources by founders. The concept stresses on the importance of

---

soci?l, fin?nci?l ?nd hum?n resources ?nd their structures. Thus, ?ccess to these resources incre?ses the entrepreneur's c?p?bility to ?ct on discovered opportunities.

The Fin?nci?l C?pit?l/Liquidity Theory st?tes th?t entrepreneurs with sufficient fin?nci?l c?pit?l, ?re more likely to ?cquire resources ?nd exploit opportunities effectively. The Soci?l C?pit?l or Soci?l Network Theory s?ys the entrepreneurs ?re needed to be in ? l?rger soci?l network construct th?t comprises of ? m?jor proportion of their opportunity structure. ? person m?y not be ?ble to pursue ?n entrepreneuri?l opportunity even ?fter being discovered, if there is ? l?ck of soci?l connections. The Hum?n C?pit?l Entrepreneurship theory consists of two f?ctors, experience ?nd educ?tion. The knowledge g?ined by these represent ? resource th?t is distributed ?cross everyone ?round the org?nis?tion?l structure which in effect helps in underst?nding the differences in exploit?tion ?nd opportunity identific?tion.

## **?pplic?tion of Entrepreneurship to Developing Countries**

The developing countries tod?y h?ve their best interests in m?ximizing entrepreneurship ?mong its people. ? c?se study of the Keny?n Entrepreneuri?l M?rket w?s done to study the v?rious ?pects. The scen?rio of ? developing country is very different from th?t of ? developed country. The economy of ? developing n?tion m?y be b?sed on ?griculture moving tow?rds the industri?liz?tion. Entrepreneurship is one of the most necess?ry ?nd import?nt input in the economic growth of ? country.

Tod?y is the er? of ch?nges, where the whole world is moving ?t ? r?pid p?ce due to f?st developing communic?tion technology ?nd industri?l revolution. The commerce ?long with glob?liz?tion of industry is bringing m?jor ch?nges in everyone's life. Economic development is ? highly dyn?mic process of purposeful hum?n ?ctivity ch?r?cterized by the production of goods, new product development ?nd p?ttern of dem?nd shifts.

? developing country requires entrepreneuri?l le?ders who ?re competent to t?ke up m?rket?ble opportunities ?nd ?re willing to t?ke risks. Entrepreneurs ?re required to bre?k the vicious cycle of low income ?nd poverty of ? developing country. The m?jor w?ys to do this is employment gener?tion, promoting c?pit?l form?tion, sm?ll business pl?n dyn?mism, b?l?nced economic development, innov?tions in enterprises, better st?nd?rds of living ?nd self-reli?nce.

## **Conclusion**

The purpose of this report w?s to ?n?lyse the v?rious rese?rch outcomes ?nd the empiric?l studies done on v?rious entrepreneurship theories. Initi?lly, we looked ?t the det?ils of the entrepreneuri?l v?lue cre?tion Fr?mework. We expl?ined the two-st?ge model with precision ?nd re?lised the import?nce of the b?sic import?nce of theory.

It is cle?r from the report th?t the field of entrepreneurship h?ve very interesting relev?nt theories from dom?ins r?nging from sociologic?l, economic, psychologic?l, ?nthropologic?l, resource-b?sed ?nd opportunity-b?sed. This rese?rch h?s ? bright future for the pr?ctice of entrepreneurship with m?ny ?pplic?tions for tod?y's business ventures. It is the b?sis for economic growth in developing countries.

M?ny schol?rs throughout the evolution of the entrepreneurship theory h?ve el?bor?ted on

---

different traits that should be present among most entrepreneurs. By combining all the mentioned theories, a generalized set of essential qualities can be formulated. For example, an entrepreneur should be a risk-taker, an opportunistic person, manager, resourceful, competent and optimistic. Although it may not be very comprehensive, but it can help explain why some people are more likely to be successful entrepreneurs than others.

## Bibliography

1. Evolution and Theories of Entrepreneurship: A Critical Review on the Kenyan Perspective, Hannah Orwa Bul (2018), School of Business-Department of Commerce Kimathi University College of Technology, International Journal of Business and Commerce.
2. Entrepreneurship theories and Empirical research: A Summary Review of the Literature, Kwabena Nkansah Simpeh Department of Business Studies, Wisconsin International University, Ghana, European Journal of Business and Management.
3. THE THEORY OF ENTREPRENEURSHIP Chapter S. Mishra, Florida Atlantic University Raymond K. Zacherly, Burch College, Entrepreneurship Research Journal.