

GORDON INSTITUTE  
OF BUSINESS SCIENCE

University of Pretoria

## **Part I: Foundation for the research**

This part comprises chapters 1 to 3. Chapter 1 is the introduction to the research and outlines the rationale for the study. Chapter 2 contains a review of the literature relevant to the research question. Chapter 3 details the research design and methodology used in the conduct of the study.

## CHAPTER 1. INTRODUCTION TO THE STUDY

This chapter outlines the rationale for the study. It argues that entrepreneurship is practically and theoretically significant, that it is both important and relevant to the South African environment.

In developing South Africa, a complex web of interacting historical, economic, organisational, social and personal factors influences entrepreneurial endeavour. Such phenomena cannot easily be explained by *a priori* theories that are largely based on data from the Western developed world rather than the developing world. The research problem therefore focuses on gaining a deeper understanding of the venture-creation process from the perspective of entrepreneurs themselves.

### 1.1. The significance of entrepreneurship as a field of study

Since the middle of the 20th century, entrepreneurship has been the subject of study in a broad range of disciplines, including biology (White, Thornhill and Hampson, 2006), psychology (Shaver and Scott, 1991), sociology (Reynolds, 1991), business strategy (Chrisman, Bauerschmidt and Hofer, 1998) and fiction (Ramesh, 2005). The scope and volume of this work suggest that scholars and practitioners alike view entrepreneurship as relatively rare, important and different from other business domains.

Not only do very few people start businesses, even fewer succeed (Shane, 2008). Entrepreneurship is considered a distinctive domain because it focuses on a special kind of individual (Bolton and Thompson, 2004), who creates a new product or service and operates under conditions of risk and uncertainty (Amit and Glosten, 1993). This has given rise to the popular notion of the heroic nature of entrepreneurial effort (Ogbor, 2000; Mitchell, 1997).

The study of entrepreneurship is considered practically and theoretically important because it is the mechanism by which society converts technical information into goods and services, and inefficiencies in an economy are discovered and corrected (Shane and Venkataraman, 2000). It is generally agreed that innovation, growth and

development in any economy are achieved by virtue of entrepreneurship (Acs, Arenius, Hay and Minniti, 2004), notwithstanding that only a minority of new ventures can be termed highly innovative (Scheepers, 2005). The entrepreneur is also known as a fundamental worker in the job of wealth creation (Mitchell, Busenitz, Lant, McDougall, Morse and Smith, 2002).

Moreover, the need for entrepreneurial capabilities such as risk-taking and innovation is believed to be increasing, as governments and parastatals join businesses in the drive to become more efficient and more effective (Rwigema and Venter, 2004) and as knowledge-based economies become globally more prevalent (Henderson and Robertson, 1999).

## **1.2. Relevance to the South African environment**

In South Africa, the importance of entrepreneurship to the nation's development can hardly be overestimated. Small business accounted for over 40% of GDP in 2002 and provided some 57% of jobs (Louw, van Eeden, Bosch and Venter, 2003; Statistics South Africa), making it critically important, given a current unemployment rate of between 26% and 40% (World Bank, 2007). Approximately 400 000 jobs must be created annually simply to halt growing unemployment (Rwigema and Venter, 2004), since the formal economy is currently absorbing only about 10% of those entering the job market each year (World Bank, 2007). This situation exists despite South Africa's position as the largest economy on the continent and relatively high GDP growth rates (World Bank, 2007).

Moreover, entrepreneurship is frequently seen as a mechanism for achieving more widespread social stability (Ladzani and van Vuuren, 2002), as a vehicle for poverty relief and socio-economic empowerment (Schlemmer and Hudson, 2004) and a means of enhancing the nation's global competitiveness (Rogerson, 2004). The confluence of these factors makes entrepreneurship in South Africa particularly significant to social and economic development, thereby also making it a relevant and important subject of study in this country.

However, the economic contribution of South Africa's entrepreneurial sector is well below the developing-country norm (Foxcroft, Wood, Kew, Herrington and Segal, 2002; Orford, Wood, Fischer, Herrington and Segal, 2003; Orford, Wood, Herrington,

Shay, Hudson and Goldstuck, 2004) and has shown no improvement since 2001 (Maas and Herrington, 2006). The Global Entrepreneurship Monitor (GEM) reports that the total entrepreneurial activity (TEA) index for the South African population is relatively low at 5.3%, especially compared to other developing countries, where it averages a comparatively large 14.8% (Maas and Herrington, 2006). As a basis for comparison, the TEA rate in Brazil is 14%, 13% in Argentina, which has a similar GDP per capita to South Africa and 32% in Uganda, an economy which is substantially smaller than South Africa (Acs *et al*, 2004).

The data from the GEM report is supported by findings from the latest Labour Force Survey (LFS) published by Statistics South Africa (2007). According to this survey, of 30.4 million South Africans in the labour market, 6.2% are running their own businesses, which is consistent with findings from the GEM studies (Orford *et al*, 2004).

Compared to other developing countries, South Africa also suffers from a relatively low proportion of opportunity-seeking, as opposed to necessity enterprises. The former entrepreneurs are taking advantage of a perceived business opportunity, while the latter are people who have no better options for work. Opportunity-seeking entrepreneurs are more likely to create high growth firms and are generally thought to have a greater economic impact than necessity entrepreneurs, since they account for a disproportionate number of all jobs and wealth created by new ventures (Nicholls-Nixon, 2005; Audia and Rider, 2005).

The rate of opportunity entrepreneurship is currently 3.5%, well below the global average of 6.8% and the developing-country average of 9.7% (Maas and Herrington, 2006). In addition, South Africa has relatively high start-up failure rates compared to other developing countries (Orford *et al*, 2004). Moreover, the majority of existing new ventures innovate relatively little with only 15% claiming their products are new to all customers, only 11% claiming they were highly differentiated from competitors and fewer than 1% making use of the very latest technologies (Scheepers, 2005).

Historical conditions have clearly played an important role in discouraging entrepreneurial activity in the broader population (Rwigema and Venter, 2004). Barriers to entry were legislated in many markets, with the result that several sectors of the South African economy were dominated by large corporations, leaving little

space for an SMME . or small, medium and micro enterprise . economy to flourish (Kirsten and Rogerson, 2002).

Entrepreneurial activity, particularly among the black majority, was actively suppressed under the previous dispensation (Schlemmer and Hudson, 2004). A poor education system created several generations of people who were disempowered, lacking the basic knowledge and skill required for starting businesses, and socialised to seek employment rather than entrepreneurship (Louw *et al*, 2003; Nasser, du Preez and Hermann, 2003).

This situation persists despite a multitude of private and public sector efforts to identify, educate, finance and support entrepreneurial enterprises at every level of South African society . particularly in the past decade (Rogerson, 2004; Nasser *et al*, 2003). Government has built a comprehensive framework for stimulating growth of the SMME sector (World Bank, 2007), including establishing several funding institutions, business incubators and a country-wide network of advice and support centres.

Although there has been a steep rise in the number of new business registrations between 1990 and 2002 (World Bank 2007), it is considered misleading to view net growth in numbers of SMMEs as an indication of programme success (Rogerson, 2004). Other economic and social (Pretorius and van Vuuren, 2003) indicators of success have been disappointing.

A World Bank (2007) study of the effectiveness of governments' programmes describes them as suffering from a number of important flaws, including: over-ambitious programme goals; lack of targeting; duplication of effort; and an excessive administrative burden. These efforts have generally been in line with ~~the~~ best practice strategies pursued elsewhere in the world (Rogerson, 2004).

However, given that the study of entrepreneurship in the developing world has been largely neglected until relatively recently (Acs and Kallas, 2007; Lingelbach, De La Vina and Asel, 2005), programmes intended to develop entrepreneurial activity are likely to have been based on ~~imported~~ beliefs and techniques (Mintzberg, 2006; Mueller and Thomas, 2000). It may be that existing entrepreneurial stimulation and support programmes have not been successful because they have not adequately taken into account the complex web of interacting historical, economic,

organisational, social and personal factors peculiar to the South African environment (Rwigema and Venter, 2004; Mueller and Thomas, 2000).

Business start-ups did occur in South Africa, even when an entrepreneurially inhibiting environment prevailed. This suggests that, given a context which clearly does not encourage small business, other factors may be influencing perceptions of the desirability and feasibility of entrepreneurship in the South African context.

Exploring that which is systematic and effective entrepreneurial action (Mitchell, Friga and Mitchell, 2005), and understanding the complexity of the individual and environmental influences on venture creation will allow for the development of an integrative model of the entrepreneurial process (Gartner, 1985; Gnyawali and Fogel, 1994; Shane 2003) that is relevant to South African conditions.

### **1.3. Explanatory power of prior studies**

Although the literature is rich in multi-disciplinary perspectives of this complex multi-level phenomenon, there is no obvious explanation for the low rates of entrepreneurial activity in South Africa, at least partly because developing world entrepreneurship has only rarely been the subject of study in the literature as a whole (Acs and Kallas, 2007; Lingelbach et al, 2005).

It may be that structural factors prohibit the emergence of opportunities (Orford *et al*, 2004; Shane, 2003; Gnyawali and Fogel, 1994). It may be that individuals are not capable of identifying the opportunities that exist because they lack the requisite creative, planning or visionary skills (Gaglio, 2004; Ward, 2004; Baron, 2003). Perhaps potential entrepreneurs have no desire to pursue new venture creation or perhaps they do not believe they are capable of doing so (Krueger, Reilly and Carsrud, 2000).

Cognitive (Baron, 2003) and affective (Forgas, 1995) capabilities may be inhibiting their ability to identify new means-ends frameworks or to evaluate risk effectively (Mullins and Forlani, 2005). An unsupportive family, a lack of entrepreneurial role models or a paucity of strong social networks (Anderson and Miller, 2003) may make resource assembly particularly difficult.

Alternatively, it may be that South African economic and legislative conditions represent an inhibiting operating environment (Ardagna and Lusardi, 2008; Hudson, 2004), or that entrepreneurial strategy is misaligned with industry structure (Sandberg and Hofer, 1987). Perhaps cultural values discourage individual enterprise or a bias for action (Tiessen, 1997; Mueller and Thomas, 2000).

Realistically, it is likely that all these variables influence new venture creation in South Africa in different ways for different individuals, in different combinations, at different times and in different places. In this respect, there is no such thing as an average entrepreneur or a typical venture (Gartner, 1985; Korunka, Frank, Lueger and Mugler, 2003). However, existing models of venture creation use generalised categories and tend not to distinguish between different types of entrepreneurial experience (Bhave, 1994).

Many of the conceptual frameworks used in entrepreneurial research are developed *a priori*, on the basis of informal observation, conjecture or prior theoretical arguments, which may not consider the lived experience of venture creation as perceived by entrepreneurs themselves (Kets de Vries, 1996). Indeed, recent studies found systematic differences between experts in the field of entrepreneurship and entrepreneurs themselves with respect to their attributions of the factors that cause and impede small business (Rogoff, Lee and Suh, 2004; Verheul, Uhlaner and Thurik, 2005).

The literature has suffered from a lack of methodological variety (Ogbor, 2000; Gartner and Birley, 2002; Hindle 2004), and is dominated by mono-factorial explanations and simplifications (Zafirovski, 1999). Only 18% of the studies conducted in the ten years ending 2001 used qualitative methods (Chandler and Lyon, 2001). Most empirical studies have run the risk of common method variance because of the use of single-source data (Chandler and Lyon, 2001), and analytical techniques are relatively unsophisticated (Hindle, 2004).

The South African environment is such that an exploration of venture creation must consider a complex web of interacting historical, economic, organisational, social and personal factors, that cannot easily be explained by *a priori* theories that are largely based on data from the Western developed world rather than the developing world.

A deeper understanding of the venture-creation process from the perspective of the entrepreneurs themselves is therefore expected to prove helpful in the development and implementation of policies and programmes to encourage and support much-needed entrepreneurial activity in South Africa. This suggests that a study which seeks to build a grounded theory of the venture-creation process in a developing country such as South Africa might have much to add to the body of entrepreneurship literature as a whole.

#### **1.4. Research question**

The main purpose of the study was to develop a mid-range theory of venture creation in a developing country, South Africa, based on an in-depth understanding of the experiences of a sample of South African opportunity entrepreneurs currently or recently engaged in setting up a new venture.

The study was specifically designed to contribute to knowledge and understanding by addressing key issues in the scholarly literature that inhibit the explanatory power of previous research as it relates to entrepreneurship in South Africa. These issues include:

- The lack of a common definition of entrepreneurship
- Treating entrepreneurs as an homogenous group
- The tendency to ignore the entrepreneurs' point of view
- Failure to adopt an holistic view of new venture creation and instead to focus on a single level of analysis
- Treating the new venture process as linear and additive
- Assuming that there is no difference between entrepreneurship in the developed and the developing world

These issues are discussed in detail in Chapter 2 Literature Review, which informed the definition of the research question and formed the basis of the comparative method adopted in data analysis.

Key research questions that have been explored include:

- What do individuals actually do at each stage of the start-up process? What are they thinking? What are they feeling? What do they need most/least?

- How do different personal, social, organisational and environmental factors interact to influence the decision to pursue or not to pursue an entrepreneurial venture?
- What does success mean to South African entrepreneurs? At what stage of the process do they consider themselves to have been successful? At what stage of the process are they most vulnerable to failure? In what way?
- How do South African entrepreneurs experience the process of new venture creation?

This research contributes to existing practice by setting out to address the real-world problem (Mouton, 2001) of how best to attract economically active South Africans to the venture-creation process. It is envisaged that the research will inform policy-making and support programme development and implementation, as well as having implications for resource-holders and entrepreneurs themselves.

The research is intended to contribute to the existing body of literature on entrepreneurship in three ways. Firstly, the research examines venture creation from the perspective of process theory rather than from the perspective of variance theory (Langley, 1999). Secondly, the research uses a qualitative, case-study methodology to consider the phenomenon at multiple levels of analysis and from multiple perspectives, an approach which is seldom used in entrepreneurial research (Ogbor, 2000; Gartner and Birley, 2002; Hindle 2004; Chandler and Lyon, 2001). Thirdly, the research serves to extend existing theories of venture creation that do not adequately describe the process as experienced by South African entrepreneurs (Eisenhardt, 1989).

### **1.5. Overview of design and methodology**

A multiple case-study design was selected, as detailed in Chapter 3. The case-study design is characterised by a focus on the dynamics of a single setting (Eisenhardt, 1989), and on understanding a contemporary phenomenon in its real-life context (Yin, 1981). Multiple cases assist in the theory-creation process because such a design permits replication and extension (Eisenhardt, 1991).

The research was delimited by a focus on entrepreneurs in South Africa who are currently or were recently engaged in venture creation for opportunity-based, rather

than survivalist, enterprises. Although opportunity-based enterprises account for a minority of all entrepreneurial ventures in South Africa, they are believed to account for a disproportionate share of job creation and economic growth. For this reason, the study focuses exclusively on this group. Two semi-structured interviews of 1-2 hours duration were conducted with each core respondent, followed by interviews with a colleague and a family member of each core respondent. Interviews were taped and transcribed and then coded using computer-aided qualitative analysis software.

Data analysis was conducted in the tradition of grounded theory, which is only rarely seen in the entrepreneurship literature (Phan, 2004). A series of thick narrative descriptions of individual entrepreneurs engaged in the start-up process was prepared. This was followed by within-case and cross-case analysis and comparison with the literature (Eisenhardt, 1989).

Further details of the methodology employed during the conduct of the study are provided in Chapter 3 of this document.

## **1.6. Structure of the thesis**

The thesis is structured in four main parts. Part I: Foundation for Research comprises this introduction, Chapter 1. Chapter 2 reviews the literature relating to definitions of relevant terms, the new venture-creation process and the personal, social, business and environmental factors influencing its successful development. Chapter 3 provides a detailed description of research design and methodology used during the conduct of the study.

Part II: Case Narratives, contains Chapters 4-11, which present detailed narrative descriptions of each of the eight cases in the study, illustrated by verbatim quotations from interview transcripts. Part III: Case Analyses, comprises Chapters 12-19, which contain within-case analyses of each case, using a series of analytical frameworks for making sense of personal, social, business and environmental data, and making reference to the literature wherever relevant.

Part IV: Discussion and Conclusions comprises Chapter 20, which examines the major themes to have emerged across the analysis of the eight cases and enfolds the literature. Finally, Chapter 21 draws conclusions based on the entire study, specifies shortcomings and highlights the key empirical, methodological and theoretical contributions made by the work and makes suggestions for future research.

The appendix to this document contains copies of interviewee release forms, discussion guides used during the interview process, transcripts of the interviews conducted for each case and outputs of the coding process.

## CHAPTER 2. LITERATURE REVIEW

This chapter contains a review of the literature relevant to explaining entrepreneurial development, or the lack of it, in South Africa. It focuses on understanding the new venture-creation process, and the personal, social, business and environmental factors that influence its initiation and development.

The emphasis is on the more-recent literature, to best incorporate the relatively recent explosion of growth in entrepreneurial studies, as well as to capture signs of maturity in the discipline (Reader and Watkins, 2006). However, this candidate has also taken care to ensure that the most important authors, journals and papers have been covered, as they are identified by a variety of reviews and citation analyses of the literature (Ratnatunga and Romano, 1997; Shane, 1997; Cornelius, Landstom and Persson, 2006; Reader and Watkins, 2006).

The chapter first outlines a brief history of the development of entrepreneurial thinking and then examines definitions relevant to delineating the boundaries of the domain. The literature review is organised thematically (Hart, 2007), first focusing on the different levels of analysis, namely the personal, social, business and environmental contexts, in the tradition of the existing literature. Next the literature relating to venture creation as a process is examined. Finally, the implications of gaps in the literature and linkages between different approaches are discussed.

### 2.1. Development of the literature

The purpose of the substantial literature on entrepreneurship is arguably to understand or, if possible, predict the phenomenon and/or to understand or predict future entrepreneurial success, failure or performance (Bryat and Julien, 2001).

The term entrepreneurship is thought to have been coined by Cantillon, an Irish banker working in France in the 1760s (Murphy, Liao and Welsch, 2006). Having described differences between supply and demand as opportunities to buy cheaply and sell, Cantillon's work foreshadowed a period of several hundred years in which entrepreneurial theory was dominated by classical economics (Murphy *et al*, 2006).

Building on the earliest notions of supply/demand arbitrage, theorists began to contemplate the entrepreneur's ability to assume risk and uncertainty and to consider the role of competition. With the advent of the Austrian School in the 1920s, the entrepreneur emerged as an individual who was uniquely alert to environmental change (Murphy *et al*, 2006), able to combine existing resources in new ways and the agent of destructive innovation (Grégoire, Noël, Déry and Béchar, 2006). Schumpeter's association of the entrepreneur with innovation has had a particularly lasting influence on the literature (McMullen and Shepherd, 2006; Nieuwenhuizen, 2006).

In the 1960s, focus shifted to the individual, when David McClelland's seminal work (Grégoire *et al*, 2006) sought to explain entrepreneurship with reference to the psychological characteristics that distinguish entrepreneurs from non-entrepreneurs. This effort has been sustained to the present day and has ranged widely across personality, behaviour, cognitive and affective dimensions. At the same time, the strategic management literature began to examine entrepreneurship from the strategic adaptation, population ecology and resource-based perspectives (Low and MacMillan, 1988).

The publication of the first encyclopaedia of entrepreneurship, together with the first major entrepreneurial conference during the early 1980s are events believed to have signalled a transition from a relatively narrow discipline to a more broadly-based understanding of the phenomenon (Nieuwenhuizen, 2006). Entrepreneurial learning and a series of sociological concepts came to be viewed as important explanatory variables, and the domain of entrepreneurship began to be considered truly multi-disciplinary (Murphy *et al*, 2006).

The 1990s saw the beginning of the recognition that, with respect to entrepreneurial effectiveness, social value is as significant as market value or financial value, and the role of networks as mechanisms for providing information and resources took on new significance (Murphy *et al*, 2006). At the same time, research became more applied, focusing on entrepreneurial actions and competencies (Nieuwenhuizen, 2006). The turn of the century began to be dominated by a focus on opportunity as a unit of analysis (Murphy *et al*, 2006).

While these multiple perspectives serve to potentially enrich entrepreneurship research, the field suffers from fragmentation which inhibits its own development

(Grégoire *et al*, 2006; Nieuwenhuizen, 2006). Certainly there is consensus that the field of entrepreneurship is a developing one, although there is much criticism that it is characterised by an ill-defined theoretical paradigm (Murphy *et al*, 2006).

The Reichers and Schneider (1990) framework describes the development of scientific constructs as a predictable sequence of three stages, namely concept introduction and elaboration, concept evaluation and augmentation and concept consolidation and accommodation. Considered through the lens of this framework, entrepreneurship is relatively immature as a domain of study, even to the extent that there is no definitional consensus and continued debate over whether the phenomenon is worthy of study in its own right (Grégoire *et al*, 2006).

However, recent analyses of the literature appear to indicate that entrepreneurship scholarship is beginning to be more collaborative in nature (Reader and Watkins, 2006), as evidenced by an increasingly internal orientation and early signs of a stabilisation of topics (Cornelius *et al*, 2006). This suggests that the field may be moving towards maturity.

## **2.2. Definitions and scope**

Definitions of entrepreneurs and new venture creation are as diverse as the literature itself (Louw *et al*, 2003; Rwigema and Venter, 2004), such that the term has accumulated different meanings over time (Murphy *et al*, 2006).

The roots of the body of research may be traced to a wide variety of different disciplines, each with its own perspective of and assumptions about the phenomenon (Gartner, 2001). This complexity is exacerbated by popular, sensationalised accounts of the entrepreneur as hero or villain (Nicholson and Anderson, 2005) and by the apparent gap between the perceptions of academics and practitioners (Hartmann, 1959; Mitchell, 1997; Rogoff *et al*, 2004).

Lack of a common definition is thought to inhibit the development of the entrepreneurial research domain because assumptions inherent in definitional diversity are seldom made explicit (Gartner, 2001), making it difficult for scholars to build on each others work and almost impossible to compare and contrast different empirical studies (Brazeal and Herbert, 1999). Many scholars avoid the definitional problem altogether, while others argue that definitional confusion only exists between

the specialist disciplines of entrepreneurship (Nieuwenhuizen, 2006) or that its meaning is socially constructed and there will, therefore, never be a single agreed definition (White *et al*, 2006).

Rather than ignoring the issue, this author seeks to justify the choice of a particular definition, firstly by comparing a variety of definitions in search of useful similarities and differences (Louw *et al*, 2003) and, secondly, by deconstructing an increasingly popular definition to better understand its meaning and relevance to the study. This represents a response to the call for clarity and explicit statement of assumptions about the concepts under investigation.

### ***2.2.1. Elements of the entrepreneurial construct***

Definitions do not readily distinguish between: the entrepreneur or actor; that which is entrepreneurial, or the behavioural dimension; entrepreneurship, the process in which the actor is involved; and new venture creation, the outcome or result of the actor behaving in a particular way throughout a particular process.

The entrepreneur or actor has been the focus of much entrepreneurial research, although early attempts to define him/her with reference to non-entrepreneurs were not successful. Many theorists have concluded that there is no single stable entrepreneurial characteristic that differentiates some people from others in all situations (Shane and Venkataraman, 2000). Sarasvathy (2003) argues that it would be more constructive to consider the distribution of entrepreneurial potential in any society. Some individuals will become entrepreneurs no matter what, others will not become entrepreneurs under any circumstances, while the large majority will become entrepreneurs in some situations but not in others.

With this in mind, the focus in some quarters is beginning to shift to understanding differences between, for example, small business owners, the self-employed and the entrepreneur (Feldman and Bolino, 2000). Whereas the small business owner has limited resources and limited expansion goals, the self-employed works as an independent contractor, consultant and service provider, and the entrepreneur invests his own and others' capital to build a growing sustainable business. Similarly, the GEM reports (Acs *et al*, 2004) distinguish between the survivalist entrepreneur who seeks income replacement and the

opportunity entrepreneur, who seeks to identify and exploit an opportunity to create a sustainable business. Opportunity entrepreneurship is generally associated with higher per capita GDP and higher rates of economic growth (Acs *et al*, 2004). In South Africa, necessity entrepreneurs generally operate in the informal sector, which is described in more detail in section 2.6.2. While the informal sector is thought to be much larger than the formal sector (Morris *et al*, 1996), productivity is generally assumed to be low, the scale of operations small and growth potential limited.

Entrepreneurial behaviour scholars focus on the behaviours with the highest potential to influence performance. However, the dimensions selected for study are not always clearly behavioural in nature, for example Timmons (1999) highlights six key themes from the literature: commitment and determination; leadership; opportunity obsession; tolerance of risk, ambiguity and uncertainty; creativity, self-reliance and ability to adapt and motivation to excel.

Thompson's (2004a) list includes focus, advantage, creativity, ego, team and social, which incorporates internal locus of control. Adherents of the Entrepreneurial Orientation construct use personal characteristics to assess firm-level orientation (Lumpkin and Dess, 1996). Finally, scholars began to agree that no neat set of behaviours separated entrepreneurs from non-entrepreneurs (Bygrave, 2003).

The new venture process may take weeks, months or even years to complete and involves many activities and decisions along the way (Shane and Venkataraman, 2000; Shaver and Scott, 1991). Entrepreneurs themselves often describe their occupation as a journey (Dodd, 2002; Bolton and Thompson, 2004), involving a complex process which requires a step-by-step approach.

The GEM reports distinguish between nascent, start-up and established businesses (Acs *et al*, 2004), which reflect the developmental process through which each new venture passes. A nascent venture has not paid salaries or wages for more than three months. A start-up venture has paid wages for more than three months but less than 42 months and an established venture has paid wages for more than 42 months.

The outcomes of the entrepreneurial process are assumed to be beneficial, but there is inadequate consideration of the consequences of new venture creation at different levels of analysis (Davidsson and Wiklund, 2001). Although an individual entrepreneur may benefit from new venture creation, his or her employees may not, since it is well established that employees in smaller firms earn less than those in larger firms (Shane, 2008). Understanding the real outcomes of new venture creation is particularly important in South Africa, where diverse societal expectations about what new venture creation is capable of achieving are often in conflict with one another (Centre for Development and Enterprise, 2007).

### **2.2.2. Examination of a range of definitions**

Previous attempts to reconcile the wide range of definitions in the literature have not proved successful (Black, 1998), making yet another attempt somewhat redundant. However, a review of the definitions used contemporaneously in the literature examined in this review might be expected to reveal the beginnings of some consensus as the field begins to mature, which might be helpful in the process of delineating the scope of the research.

The definitions listed in Table 1 including some of the most-cited authors in the entrepreneurship field between 1986 and 2004, according to a recent analysis of 3 952 articles containing 151 560 references (Cornelius *et al*, 2006). Examination of even this small list of definitions reveals a remarkable diversity of opinion, although common elements are discernible (Louw *et al*, 2003; Verheul *et al*, 2005; Nieuwenhuizen, 2006).

Table 1 illustrates that most definitions make specific reference to the individual as an important or vital actor in the entrepreneurial process. This individual is active in identifying the opportunity, and in building an organisation in an innovative and creative manner, not simply reacting to the ebb and flow of environmental conditions. The central role of risk-taking as a defining feature of entrepreneurial activity appears to be receding.

Consensus seems unlikely in the near future. Close examination of a single definition might prove more helpful.

**Table 1. Components of contemporary definitions of entrepreneurship**

Definition	Author/s	Date	Individual	Opportunity	Innovation and creativity	Risk	Action	Organisation building
Someone who recognises an opportunity, acts on it by creating an organisation and in the process risks a significant amount of personal wealth	Bygrave and Minniti	2000	X	X		X	X	X
An active agent who shapes/creates his/her own reality and as such is simultaneously the driver of the entrepreneurial process operating within a reality which sets limits on the choice of action possibilities	Chell	2000	X			X	X	
Someone who discovers, evaluates and exploits opportunities to create future goods and services	Shane and Venkataraman	2000	X	X	X			
Someone who perceives an opportunity and creates an organisation to pursue it	Bygrave	2003	X	X	X			X
One who owns, launches, manages and assumes the risk of an economic venture	Greve and Salaff	2003	X			X	X	
A person who sees an opportunity in the market, gathers resources and creates and grows a business venture to meet these needs. He or she bears the risk of the venture and is rewarded with profit if it succeeds	Nieuwenhuizen	2003	X	X		X		X
A person who habitually creates and innovates to build something of recognised value around perceived opportunities	Bolton and Thompson	2004	X	X	X			X
The process in which pioneers, innovators or champions of innovation, immersed in and guided by a creativity perspective, engage in the practice of innovation-driven activities, which lead to a certain level of performance as indicated by the realised creation and innovation	Ma and Tan	2006	X		X			
Significant involvement in the creation of a new venture	White, Thornhill and Hampson	2006			X		X	X
Individuals who recognise and exploit new business opportunities by founding new ventures	Baron	2008	X	X				X

### **2.2.3. Deconstruction of a popular definition**

In their influential article proposing a framework for entrepreneurial research, Shane and Venkataraman (2000) see the entrepreneur as *someone who discovers, evaluates and exploits opportunities to create future goods and services*. This definition is gaining increasing credence in the literature, because it clearly delineates the appropriate scope of entrepreneurship research (Gartner, 2001).

The Shane and Venkataraman (2000) definition implies that entrepreneurship is an activity initiated by an individual. As such, understanding the phenomenon requires consideration of all the diversity and complexity associated with an individual's thoughts, feelings, behaviours and interactions with others (Woo, Daellenbach and Nicholls-Nixon, 1994; Shaver and Scott, 1991).

Entrepreneurship is deliberate and intentional, requiring that an individual make a series of decisions and take action within the context of a particular environment, rather than simply responding to properties of and conditions in that environment (Chrisman *et al*, 1998).

Entrepreneurship is concerned with the discovery of opportunities that exist in the environment. This assumes that such opportunities do, in fact, exist to be discovered, and that the nature of the environment influences the quality of the opportunities available (Chrisman *et al*, 1998; Gnyawali and Fogel, 1994). Discovery of opportunities requires specialised knowledge (Shane and Venkataraman, 2000), but also a particular kind of cognitive processing (Baron, 2003; Gaglio, 2004), affect infusion (Baron, 1998) and social capital (Baron and Markman, 2000).

The phenomenon involves innovation and a future orientation, which means it requires creativity on the part of the individual entrepreneur (Ward, 2004), who must anticipate future needs or envisage new ways of meeting them (Rwigema and Venter, 2004; Shane, 2003). In particular, entrepreneurs need to discover new means-ends relationships, a creative skill which is unevenly distributed in the population. Entrepreneurial creativity is typically the result of cognitive processes such as conceptual combination, analogical reasoning (Ward, 2004) and mental simulation (Baron, 2003; Gaglio 2004).

As a result of the innovation requirement, entrepreneurship is fraught with risk and uncertainty (Mullins and Forlani, 2005; Simon, Houghton and Aquino, 1999), which must be carefully evaluated and managed if the venture is to be successful. Scholars have recently turned their attention to the possibility that, rather than being more risk tolerant, entrepreneurs actually perceive risk differently because they suffer from a variety of cognitive biases, including for example an unrealistic belief in their own ability to retain control over business conditions in unforeseen circumstances (Simon *et al* , 1999). Risk evaluation is also influenced by affect infusion, because individuals often use their feelings as a convenient heuristic in the decision-making process, especially in highly uncertain conditions (Baron, 1998).

Unless and until exploitation occurs, entrepreneurship has not taken place. However, this is not to suggest that exploitation only occurs via the medium of a new enterprise, since it might involve the sale of the opportunity to an existing firm, for example. Nor does the Shane and Venkataraman (2000) definition imply that entrepreneurship is limited to profit-focused private-sector enterprises, as opposed to socially oriented or public-sector enterprises (Rwigema and Venter, 2004; Bolton and Thompson, 2004).

Finally, entrepreneurship is a process of discovery, evaluation and exploitation, rather than an event (Woo *et al*, 1994). The actual start-up of the business is preceded by a variety of activities and decisions, including the accumulation of resources, the development of strategy and establishment of an organisation capable of executing the strategy.

This cursory analysis of a single definition of entrepreneurship reveals the existence of a complex, multi-level phenomenon characterised by multi-directional causality between distinctive elements, as experienced by an individual (Shane, 2003) in the context of a particular environment (Park and Bae, 2004).

This, together with the increasing use of this definition by a variety of scholars, tends to favour its adoption for the current study, which therefore defines the entrepreneur as *someone who discovers, evaluates and exploits opportunities to create future goods and services* (Shane and Venkataraman, 2000).

## 2.3. The personal context

At the individual level of analysis, a substantial body of research attempts to identify individual characteristics that systematically differentiate entrepreneurs from non-entrepreneurs (Gartner, 1985). Such research would contribute to this study if it were able to show that a series of stable, universal characteristics that predict entrepreneurial potential in individuals (Mitchell *et al*, 2002b), no matter what kind of environment they are operating in.

### 2.3.1. *Demographic characteristics*

Demographic differences have proven to be a fruitful avenue for investigation, in that age, ethnicity, education and income have all been demonstrated to distinguish entrepreneurs from non-entrepreneurs (Shane, 2003; Bolton and Thompson, 2004; Rwigema and Venter 2004; Louw *et al*, 2003).

Globally, most entrepreneurs fall between the ages of 25 and 34 years (Acs *et al*, 2004), highlighting that new venture creation is indeed a young man's game (Lévesque and Minniti, 2006). In their discussion of the effect of aging on entrepreneurial activity, Lévesque and Minniti (2006) suggest that there is a negative relationship between entrepreneurial attitude and age. Unlike salaried employees, entrepreneurs work in expectation of uncertain future earnings, the appeal of which declines as the time available to collect future earnings shrinks. Moreover, the fact that older, more experienced executives are at the peak of their earning power may add to the relative unattractiveness of entrepreneurial endeavour (Lévesque and Minniti, 2006).

Gender is increasingly a focus of attention for entrepreneurial studies, as scholars seek to explain why men are about twice as likely to start a new business as women (Shane, 2008; Acs *et al*, 2004). A common finding is that there are more similarities than differences between male and female entrepreneurs (Mueller, 2004). However, women in the general population are less likely to see themselves as entrepreneurs (Verheul *et al*, 2005). In addition, women-owned businesses reportedly underperform with respect to: the sectors they choose; their business experience; the time they are willing to dedicate and their risk propensity (Shane, 2008; Verheul *et al*, 2005).

Perhaps in response to these findings regarding the differences between men and women, an innovative study recently found that entrepreneurs have higher testosterone levels than non-entrepreneurs, for both male and female respondents, and that testosterone is positively related to risk propensity (White *et al*, 2006). Whether higher testosterone levels in entrepreneurs are an antecedent or consequence of new venture creation has yet to be determined.

Differences in rates of entrepreneurship in South Africa are sharply divided on ethnic lines, reflecting the legacy of apartheid. Rates of entrepreneurship are highest among the Indian ethnic group, followed by whites, then blacks, with the coloured (mixed-race) group demonstrating the lowest (Maas and Herrington, 2006). Differences between ethnic groups are not merely a feature of the South African environment, however. In the US, more than twice the proportion of whites are self-employed than the proportion of African Americans (Shane, 2008), in spite of the belief in some quarters that ethnic minorities who are alienated from the mainstream will be more likely to be motivated to achieve economic success (Sleuwagen and Goedhuys, 1998).

There is strong evidence of a positive association between higher levels of education and higher entrepreneurial activity rates in high-income countries (Acs *et al*, 2004). Robinson and Sexton (1994) suggest that returns on education are higher for self-employed people, who gain from increased self-efficacy as well as entrepreneurially relevant skills. Enrolment at tertiary institutions in South Africa is 15% of the relevant age group, compared to 28% in Malaysia and 24% in Brazil (Blanke, Paua, Sala-I-Martin, 2003).

Recently, a series of large-scale studies conducted consecutively in Russia, China and Brazil provide a definitive demographic and sociological profile of the developing country entrepreneur (Djankov, Qian, Roland and Zhuravskaya, 2008), as illustrated in Table 2.

**Table 2. Profile of the developing country entrepreneur <sup>1</sup>**

<p><b>Entrepreneurs are more likely to:</b></p> <ul style="list-style-type: none"> <li>• Have parents who were directors or senior managers</li> <li>• Come from a wealthier family</li> <li>• Have friends or family members who run their own businesses</li> <li>• Be married</li> <li>• Have stronger cognitive abilities</li> <li>• Show lower tolerance for corruption</li> <li>• Have high levels of trust in others</li> <li>• Be more patient than non-entrepreneurs</li> <li>• Be taller than non-entrepreneurs (by one centimetre, on average)</li> <li>• Adhere to Protestant religion</li> </ul> <p><b>Entrepreneurs are NOT more likely to:</b></p> <ul style="list-style-type: none"> <li>• Have more highly educated parents</li> <li>• Have been in the top 10% at school</li> <li>• Display higher levels of self-confidence</li> <li>• Be more tolerant of risk</li> </ul>
---

There is evidence to suggest that, in some instances, the relationship between demographic variables and the incidence of entrepreneurship might differ for developing countries in general and for South Africa in particular. For example, in South Africa, there is no difference in rates of entrepreneurship between males and females (Maas and Herrington, 2006). Nor are men and women found to differ in entrepreneurial tendencies or key personality characteristics such as need for achievement or internal locus of control (Mahadea, 2001).

In other low-income countries, those with lower levels of education are more likely to start businesses (Orford *et al* 2004; Acs *et al*, 2004), possibly because there is more pressure to develop businesses (Escher, Grabarkiewicz, Frese, and van Steekelenberg, 2002). In South Africa, where the unemployment rate is high and the pressure to develop businesses is therefore be assumed to be significant, business owners tend to be better educated than the general population (Maas and Herrington, 2006).

Studies of the personal demographics of entrepreneurs have been criticised for being atheoretical (Vecchio, 2003), particularly with respect to the establishment of causal associations between entrepreneurial behaviours and demographic characteristics (Vecchio, 2003).

---

<sup>1</sup> Adapted from Djankov S, Qian Y, Roland G and Zhuravskaya E, 2008. What makes an entrepreneur, International Finance Corporation, January 2008, downloaded from <http://www.doingbusiness.org/documents> on 26 April 2008.

### **2.3.2. Motivation and intention**

Although demographic variables might increase an individual's propensity to initiate new venture creation, entrepreneurial potential, a pre-existing preparedness, must be in place before intention is formed, often by a precipitating event (Krueger and Brazeal, 1994). Entrepreneurial potential arises from an environment that is socially and culturally supportive of entrepreneurial effort as well as economically munificent (Krueger *et al*, 2000).

Some scholars argue that intentions are consistently found to predict planned behaviours to a greater extent than is true of personal and situational variables (Krueger *et al*, 2000). This suggests that entrepreneurs may decide to start a business long before they find a particular opportunity (Krueger *et al*, 2000), rather than simply responding to the opportunity stimulus as a conditioned response.

Potential entrepreneurs must be motivated to act (Shane, Locke and Collins, 2003), however supportive the environment. They are motivated to create a new venture when they perceive entrepreneurship to be desirable and feasible and there is propensity to act. Desirability is shaped by the individual's perception of likely outcomes, including intrinsic and extrinsic rewards, both financial and non-financial, and by the social norms of the environment in which he or she is embedded (Krueger *et al*, 1994). Perceived feasibility incorporates an objective assessment of the potential barriers and risks involved, but is most strongly influenced by the individual's self-efficacy, or task-specific self-confidence (Krueger *et al*, 2000; Shane *et al*, 2003).

Conventional views of entrepreneurship have tended to view profit as the main motivating factor for entrepreneurs (Zafirovski, 1999), but empirical evidence suggests that wealth attainment is less important to entrepreneurs, who tend to value the goal of innovation to a much greater extent (Amit, MacCrimmon and Zietsma, 2000).

Several categories of reasons that individuals give for starting a business are identifiable: innovation, independence, recognition, roles, financial success and self-realisation (Carter, Gartner, Shaver and Gatewood, 2003). Entrepreneurs were found to be similar to non-entrepreneurs in independence, financial

success, self-realisation and innovation. The most frequently cited career anchor among the self-employed is autonomy and independence, followed by entrepreneurial creativity (Feldman and Bolino, 2000). However, entrepreneurs were not concerned with fulfilling roles or recognition from others, suggesting that they need less personal validation from others than do non-entrepreneurs (Carter *et al*, 2003).

### **2.3.3. Work experience**

Most entrepreneurs have experienced employment prior to initiating the new venture-creation process (Shane, 2008). The workplace acts as a critical source of human capital for the nascent entrepreneur, who gains general business skills, specialised technical knowledge, useful networking relationships and a deep understanding of a particular industry and its customers (Shane, 2008). Not only does this experience help the entrepreneur to run a business, it has an important impact on the individual's ability to identify opportunities and successfully exploit them in the first place (Crosa, Aldrich and Keister, 2003; Waistad and Kourilsky, 1998; Chen, Greene and Crick, 1998). This phenomenon is particularly evident in the careers of habitual entrepreneurs (Ucsbaran, Wright and Westhead, 2003).

The development of these skills and capabilities may be conceived of as preparation on the part of an individual for the entrepreneurial career. As a result, it may be that there are particular times in the career/family life-cycle when an individual may be better prepared for entrepreneurship than others (Harvey and Evans, 1995).

On the face of it, entrepreneurship seems like a poor career choice, albeit with high levels of job satisfaction (Bradley and Roberts, 2004). Entrepreneurs work long hours (Douglas and Shepherd, 2002), usually earn less than their employed counterparts (Markman, Balkin and Baron, 2002), take greater risk and experience frustration and failure (Segal, Borgia and Schoenfeld, 2005). In an effort to understand how and why entrepreneurs choose to create new ventures rather than remain in paid employment, a group of scholars have approached this question from the perspective of career theory (Douglas and Shepherd, 2002; Feldman and Bolino, 2000; Harvey and Evans, 1995; Gibb Dyer, 1994; Bowen and Hisrich, 1986).

Individuals who have positive attitudes to risk tolerance and a preference for independence are more likely to be attracted to an entrepreneurial career than those who have less positive attitudes (Douglas and Shepherd, 2002). However, not all entrepreneurs are the same, in that those with different career anchors find different aspects of entrepreneurship attractive, and experience different levels of job satisfaction and psychological well-being (Feldman and Bolino, 2000).

Although individuals considering career options generally consider income to be the most important criterion, this is not a significant determinant of entrepreneurial intention (Douglas and Shepherd, 2002), nor does personal wealth act as a stimulus for new venture creation (Crosa *et al*, 2003). The socialisation effect of self-employed parents seems to have a much more important impact (Crosa *et al*, 2003).

Individuals are thought to choose an entrepreneurial career when they are in some way dissatisfied with their current employer (Harvey and Evans, 1995). The entrepreneur is seen as having been displaced from an unfavourable work environment (Shapiro and Sokol, 1982) and seeks independence and autonomy in self-employment (Shane, 2008). However, a study of the entrepreneurial tendencies of managers concludes that the ranks of frustrated employees are unlikely to be fertile ground for nascent entrepreneurs (Cromie, Callaghan and Jansen, 1992).

The work experience literature barely addresses situations in which unemployment is high, and nascent entrepreneurs have no other choice but to create new ventures. There is some evidence to suggest that where the chances of finding a good job are small and the variation in wages is high, the individual will tend to favour self-employment (Sleuwagen and Goedhuys 1998).

#### **2.3.4. Personality characteristics**

The attempt to identify personality characteristics unique to the entrepreneur has occupied scholars for over 40 years. Scholars reasoned that entrepreneurship is essentially an individual act (Stewart, Watson, Carland and Carland, 1998), and therefore the reasons for this behaviour may be found within the individual (Shaver and Scott, 1991).

Latterly, theorists have argued for the importance of individual characteristics on the grounds that venture capitalists, as experts in the field, make a direct link between the lead entrepreneurs' characteristics and the expected performance of the firm. Despite the wide variety of studies conducted in a wide variety of settings (Green, David, Dent and Tyshkovsky, 1996), this personological endeavour has largely proven fruitless (Gartner, 1985; Shaver and Scott, 1991).

McClelland linked the psychological characteristic of need for achievement with the Protestant work ethic and economic development (Johnson, 1990). Individuals who are high in need for achievement: have a desire to do things as well and as rapidly as possible; take personal responsibility for finding solutions to problems; set moderate goals and take calculated risks; and prefer clear feedback on their performance (Shane *et al*, 2003). Innumerable studies have demonstrated a positive relationship between need for achievement and entrepreneurship, although methodological problems have been identified (Johnson, 1990). The relationship between need for achievement and entrepreneurship has also been demonstrated in several different locations (Green *et al*, 1996), highlighting that the phenomenon may be multi-culturally relevant (Stewart *et al*, 1998).

High need for achievement individuals were also believed to be associated with a moderate need to take risks. This was considered important because risk-taking is a defining feature of entrepreneurial behaviour (Shane *et al*, 2003). Studies have generally found that business owners do not differ from managers or the general population with respect to risk-taking. In South Africa, risk-taking propensity is reportedly the most underdeveloped of all entrepreneurial traits (Louw *et al*, 2003).

A tolerance for ambiguity, the tendency to view uncertain situations as appealing rather than threatening has not been consistently shown to be associated with entrepreneurial behaviour (Shane *et al*, 2003).

Internal locus of control refers to the individual's tendency to believe that his own actions and behaviours affect outcomes, as opposed to being the passive recipient of events. This characteristic has also been studied intensively (Shane

*et al*, 2003) although again with little conclusive evidence that entrepreneurs differ from the rest of the population.

In addition to the big four entrepreneurial personality characteristics studied, a number of minor characteristics have also received attention, including self reliance (Lee and Tsang, 2001), need for control (Kets de Vries, 1985) and preference for innovation (Stewart *et al*, 1998). Meta-analyses of the personality characteristics research point to methodological problems such as variability of samples, different operationalisations and lack of consistency in measurement as possible reasons for relatively weak results (Johnson, 1990; Shane *et al*, 2003).

Entrepreneurial orientation is a construct devised to assess firm-level entrepreneurial capability (Lumpkin and Dess, 1996), but on the grounds that the measures are self-reports by individuals, Krauss, Frese, Friedrich and Unger (2005) argue that it can be usefully applied to assessing entrepreneurial potential in individuals. The construct incorporates seven dimensions: learning orientation; achievement orientation; autonomy orientation; competitive aggressiveness; innovative orientation; risk-taking orientation and personal initiative (Krauss *et al*, 2005). Their study of South African business owners found evidence of a positive relationship between entrepreneurial orientation and business performance, the achievement orientation and personal initiative being the most important dimensions (Krauss *et al*, 2005).

A small number of scholars have adopted a clinical approach to researching the psychology of entrepreneurship (Kets de Vries, 1996). This perspective tends to view the entrepreneur as aberrant, an outsider who constructs her own environment and whose personality quirks are largely responsible for success (Kets de Vries, 1985). Other observations of entrepreneurs drawn from this clinical research include: entrepreneurs have a high need for control and are often perfectionists; they use work to escape from a painful inner reality; they experience excitement when dealing with an unpredictable environment; entrepreneurship delivers social status and admiration from others; the entrepreneurial individual may be skilled at constructing a façade of confidence, while managing a lack of self-confidence internally (Kets de Vries, 1996).

Much of the work examining personality characteristics assumes that entrepreneurs are a homogenous group who differ from non-entrepreneurs in

some way (Shaver *et al*, 2001; Smith-Hunter, Kapp and Jonkers, 2003). Studies that focus on understanding how entrepreneurs differ from each other are less common. Possibly the best recognised is the Miner typology (1996a; 2000) of entrepreneurial personalities which was developed from the literature and empirical research and has been validated in several quantitative studies since the mid-1980s (Smith and Miner, 1983; Miner, 1996b, 2000). The key features of each of the four types are illustrated in Table 3.

**Table 3. Miner’s (2000) typology of entrepreneurial personality types <sup>2</sup>**

<b>Personal achiever</b>	<b>Empathic super salesperson</b>	<b>Real manager</b>	<b>Expert idea generator</b>
<ul style="list-style-type: none"> <li>• Need to achieve</li> <li>• Desire for feedback</li> <li>• Plans and sets goals</li> <li>• Strong personal initiative</li> <li>• Strong personal commitment</li> <li>• Belief that one person can make a difference</li> <li>• Belief that work should be guided by personal goals</li> </ul>	<ul style="list-style-type: none"> <li>• Capacity to empathise</li> <li>• Desire to help others</li> <li>• Belief that social pressures are important</li> <li>• Need to have strong positive relationships with others</li> <li>• Belief that sales force is crucial</li> </ul>	<ul style="list-style-type: none"> <li>• Desire to be a corporate leader</li> <li>• Decisiveness</li> <li>• Positive attitude to authority</li> <li>• Desire to compete</li> <li>• Desire for power</li> <li>• Desire to stand out from the crowd</li> </ul>	<ul style="list-style-type: none"> <li>• Desire to innovate</li> <li>• Love of ideas</li> <li>• New product development is crucial</li> <li>• Good intelligence</li> <li>• Desire to avoid taking risks</li> </ul>

The Miner (2000) types are distinctive but equally capable of high-performance entrepreneurship, although each uses a different set of skills and processes and may follow a different time line in achieving success.

### **2.3.5. Cognitive style and cognitive bias**

The cognitive perspective also operates from a psychological basis and has similarly pursued the goal of distinguishing between entrepreneurs and non-entrepreneurs, albeit with a greater degree of success (Shaver *et al*, 1991). Scholars have also sought to uncover which cognitions represent successful responses to the unusually uncertain environments entrepreneurs face (Baum,

---

<sup>2</sup> Adapted from Miner JB, 1996. The four routes to entrepreneurial success. San Francisco: Brett Koehler Publishers.

2003). This has proven a theoretically rigorous and empirically testable approach (Mitchell *et al*, 2002a), although entrepreneurs tend to be treated as cognitively homogenous, even though some studies indicate they are not (Forbes, 2005).

Particular kinds of cognitive processing have been found to influence the way in which opportunities are identified (Baron, 2003). Scholars have also hypothesised that entrepreneurs would make greater use of cognitive heuristics such as availability, representativeness and anchoring to speed cognitive processing and minimise cognitive load (Gaglio, 2004), which is probably especially valuable during the opportunity-assessment process (Shaver and Scott, 1991). Entrepreneurs have also been demonstrated to be particularly creative (Ward, 2004), and able to make decisions with incomplete information (Simon *et al*, 1999).

As a result of human limitations on the ability to process information, and our tendency to minimise cognitive effort, individuals are subject to a wide range of cognitive errors and biases. These are believed to be particularly applicable to entrepreneurs, who operate in high-stress, highly emotional and highly uncertain conditions (Baron, 1998). Entrepreneurs who pioneer a product or process are thought to be particularly prone to cognitive bias in their information processing (Simon and Houghton, 2002).

Entrepreneurs are particularly prone to an overconfidence bias (Mullins and Forlani, 2005), the generalised tendency to overestimate the correctness of their own ability to assess moderate to difficult situations (Forbes, 2005).

It was long believed that entrepreneurs had a greater propensity for risk, but it has recently been demonstrated that they do not knowingly accept higher levels of risk, they simply perceive risk differently (Simon *et al*, 1999). Entrepreneurs' optimism bias means they consistently underestimate the amount of risk involved in a new venture (Baron, 2003). In addition, entrepreneurs suffer from the illusion of control whereby the individual overemphasises the extent to which his/her skill can increase performance where chance plays a more significant role than skill. Entrepreneurs also believe that a limited number of informational outputs can be used to draw firm conclusions (Simon *et al*, 1999).

Entrepreneurs are also thought to engage in another cognitive bias, counterfactual thinking, which may be described as a mental simulation of past and future events that creates the emotion of regret, less often than non-entrepreneurs (Baron, 1998; Gaglio, 2004). This suggests that entrepreneurs may be more willing to learn from past mistakes (Vecchio, 2003). Mental simulation also helps entrepreneurs to develop and maintain an intense vision of a desirable future throughout the difficulties inherent in new venture creation (Baum, 2003).

Entrepreneurs are susceptible to the planning fallacy, overestimating how much they can accomplish in a given period, because they deal with so much uncertainty (Baron, 1998; 2003). Moreover, once a new venture has been established, the entrepreneur may experience pressure to continue investing time effort and money . even in a loss-making business . because of the need to justify previous decisions. Commitment irrationality escalates instead of declining (Baron, 1998).

Attribution theory provides a helpful framework for understanding entrepreneurial cognition. Attributions refer to the explanations that entrepreneurs use to explain success or failure in business-related activity (Shaver and Scott, 1991), and are defined by three theoretical dimensions: stability; internal or external locus of causality; and intentionality. If failure is attributed to bad luck (internal, stable) or insufficient internal motivation (internal, variable), the perceiver can reassure himself that in future things will be different. If the success or failure is attributed to internal stable causes, the result will be to produce feelings of pride or shame (Shaver and Scott, 1991).

It appears that entrepreneurs may suffer from a self-serving bias (Rogoff *et al*, 2004), a strong tendency to attribute positive outcomes to internal causes such as their own skill, talent or hard work and a corresponding tendency to attribute negative outcomes to external causes (Baron 1998). This attribution process is seen as having an important role in sustaining entrepreneurial behaviour over time (Shaver *et al*, 2001).

Some theorists suggest that while the average manager uses causal reasoning, entrepreneurs are more likely to use effectual reasoning (Sarasvathy, 2005). Causal reasoning begins with a predetermined goal and a given set of means

and seeks to identify the best way to achieve the goal. Effectual reasoning begins with a given set of means and allows goals to emerge over time in response to changing circumstances (Sarasvathy, 2005).

### **2.3.6. Entrepreneurial self-efficacy**

Self-efficacy describes an individual's cognitive estimate of their ability to mobilise the motivation, cognitive resources and courses of action needed to exercise control over events, and is strongly associated with entrepreneurial propensity (Chen *et al*, 1998) and persistence (Gatewood, Shaver, Powers and Gartner, 2002). In the entrepreneurial context, it refers to the individual's belief that he/she can muster and implement the necessary personal skills and competencies to attain a level of achievement on a given task (Shane *et al*, 2003). Self-efficacy has been demonstrated to have a strong effect on entrepreneurial intention but may not always positively influence entrepreneurial performance (Chen *et al*, 1998). In South Africa, individuals who believe they have the skills to start a business are seven times more likely to be engaged in entrepreneurial activity than those who are not confident in their entrepreneurial ability (Orford *et al*, 2004).

Beliefs about the self flow from three major sources, namely from direct experience, from indirect experience and from other beliefs about the self and the world (Gatewood *et al*, 2002). Such beliefs have important consequences because individuals will avoid activities that they believe exceed their capabilities, while choosing those activities that they feel capable of handling. More significantly, people who expect to perform well, very often do (Gatewood *et al*, 2002).

Self-efficacy is powerfully influenced by causal attribution, the mechanism individuals use to give meaning to events and outcomes that they personally experience (Grundlach, Martinko and Douglas, 2003; Baron, 1998). In other words, it is the perception of performance that most profoundly influences an individual's self-efficacy, rather than the performance itself (Chen *et al* 1998). Entrepreneurial self-efficacy may also be influenced by the individual's assessment of the availability of resources (Boyd and Vozikis, 1994).

Individuals can develop and strengthen self-efficacy through: mastery experiences, in which the individual overcomes obstacles; modelling the behaviour of other successful individuals; social persuasion or encouragement that they are capable; and their own judgements about the physiological states that are aroused by the behaviour (Boyd and Vozikis, 1994).

The literature seems to suggest that self-efficacy may be based on the unrealistic optimism characteristic of those who choose self-employment (Arabsheibani, de Meza, Maloney and Pearson, 2000). There is strong support for the idea that entrepreneurs are more optimistic than non-entrepreneurs, a feature related to more favourable perceptions of work, a willingness to work longer hours for a longer career period, and expectations of a longer life (Puri and Robinson, 2007). Overconfidence may be necessary if the entrepreneur is to embark on the risky process of new venture creation (Vecchio, 2003).

Most entrepreneurs vastly overestimate their chances of success, even when they are relatively poorly prepared. Over-optimism may therefore have a negative impact on the new venture-creation process, particularly if it causes the entrepreneur to underestimate the resources required and difficulties involved (Cooper, Woo and Dunkelberg, 1988). Interestingly, entrepreneurial self-efficacy has recently been shown to change during the life of the venture. At start-up, the individual's belief in her own ability to influence the execution of plans is stronger than during the sixth year of operation (Littunen, 2000). This reinforces the notion that entrepreneurs are unrealistically optimistic at start-up, at least partly because they know no better.

### ***2.3.7. The role of affect***

Many of the activities in which entrepreneurs are routinely involved have been previously shown to be strongly influenced by affect, including creativity, decision-making, persuasion and the establishment and maintenance of personal relationships (Cross and Travaglione, 2003). Moreover, affect is particularly salient to individuals functioning in highly unpredictable, changing environments (Baron 2008).

Emotional self-awareness and emotional self-control influence how individuals make attributions about success or failure and therefore impact on

entrepreneurial self-efficacy (Grundlach *et al*, 2003) and the motivation to initiate a new venture in the first place.

Affect influences the opportunity-recognition process because it has been shown to enhance an individual's ability to notice a wide range of stimuli (Baron, 2008). So-called affect-priming influences judgement and decision-making by focusing the individual's attention on some factors and not on others (Forgas, 1995). In addition, during fast, heuristic cognitive processing, affect is sometimes used as information in decision-making (Forgas, 1995). Few decisions entrepreneurs make are the result of rational calculation, simply because they often lack the grounds for doing so (Zafirovski, 1999). It is therefore likely that affect influences opportunity evaluation and risk assessment.

An entrepreneur's ability to be persuasive and enthusiastic directly influences the establishment of a social and business network and the acquisition of resources required to set up a new venture (Baron, 2008; Cardon, 2008). Some scholars suggest that affect may be a defining feature of entrepreneurial success, both in terms of an individual's commitment to start-up and to persist over time (Dodd, 2002; Shane *et al*, 2003; Branzei and Zeitsma, 2002).

Many entrepreneurs are afflicted by high levels of stress, which may be caused by loneliness, conflicts with employees and partners, an unusually demanding work schedule and uncertainty about future outcomes (Askande, 1994). One study found that business risks were closely followed by work stress, time for family and friends and fear of failure as issues considered by entrepreneurs to be significant barriers to new venture creation (Kouriloff, 2000). Coping with stress may require awareness and regulation of intensely experienced emotion (Goleman, 2004).

Entrepreneurs also derive intense pleasure and satisfaction from their careers (Douglas and Shepherd, 2002). This pleasure forms one dimension of the core affective experience at work, capable of stimulating both motivation to act and persistence of actions that are goal directed (Seo, Barrett and Bartunek, 2004). It has been hypothesised (Morris, 2003) that entrepreneurs experience a psychological state characterised by intense concentration, loss of time, space and self, and the perception of mastery and control (Csikszentmihalyi, 2002).

Another relatively under-researched aspect of entrepreneurial affect is the passion individuals have and display for their business ideas. The passion that an entrepreneur experiences may represent personal illusions of mastery and optimism, but these emotions also act as important buffers to stress and may have the ability to enhance and restore positive perceptions, even under conditions of adversity (Branzei and Zietsma, 2004).

Displays of passion on the part of the entrepreneur have important implications for attracting resources (Cardon, 2008), in that contagion of positive emotion within the nascent firm can lead to improved employee cooperation, decreased conflict and increased perceived task performance (Goleman, Boyatzis and McKee, 2001), while contagion of negative emotion may lead employees to increase their efforts, but will be detrimental if prolonged. However, entrepreneurs are not believed to be homogenous in their willingness and ability to share their passion for their enterprises (Cardon, 2008).

Apart from the commonly reported euphoria associated with business start-up (Cooper *et al*, 1988), perhaps the most intense emotional experience the entrepreneur endures is that associated with business failure (Singh, Corner and Pavlovich, 2007; Shepherd, 2003). This experience represents a personal loss, for which entrepreneurs typically feel grief capable of triggering a range of psychological and behavioural symptoms. Such a loss must be dealt with on an economic, psychological, social and physiological dimension (Singh *et al*, 2007) and entrepreneurs may need to learn special skills to cope (Shepherd, 2004), adopting different strategies such as rejection, removal or reconciliation (Mitchell, 1997).

Importantly, the emotions experienced during the grieving process which follows failure may inhibit the entrepreneur's ability to learn from the experience (Shepherd, 2003). This is particularly significant because the more experienced the entrepreneur, the more likely he/she will be successful in the following venture (Shepherd, 2004).

### **2.3.8. *Attitude to entrepreneurship***

Attitude is not the subject of a great deal of research in the entrepreneurial domain, possibly because scholars seem to have paid little attention to the

entrepreneurs' experience of new venture creation (Morris, 2003). A study of owner-managers' perceptions of the freedoms and constraints they face during the process suggests that although many entrepreneurs expected greater personal freedom from venture ownership, they also experienced unexpected constraints, mainly arising from a lack of access to resources (Wahlgren and Stewart, 2003).

The attitudes of entrepreneurs and non-entrepreneurs towards the range and intensity of barriers to new venture creation differ markedly. Barriers were perceived to be highest among those who had no wish to become an entrepreneur and lowest among those who were already entrepreneurs (Kouriloff, 2000).

Scholars have examined the attitude of young people to entrepreneurship, as a way of predicting intention (Henderson and Robertson, 1999; Waistad and Kourilsky, 1998). Results have been mixed, with some studies showing that socio-economically underprivileged youths are more positively disposed to entrepreneurship (Waistad and Kourilsky, 1998) and others that deprived youths are less positive (Henderson and Robertson, 1999).

It may be that attitudes towards entrepreneurship differ between the developed and developing world. In Jamaica, for example, it was found that self-employment and employment in the informal sector are considered temporary holding measures for those awaiting limited but highly desirable formal sector employment (Honig, 1998). In South Africa, a study of entrepreneurial attitudes of accountants and pharmacists revealed attitudinal differences between those who were employed and those in private practice, particularly relating to innovation and self-esteem (Van Wyk and Boshoff, 2004).

### ***2.3.9. Behaviour during entrepreneurship***

Entrepreneurial behaviour is generally considered to be different from managerial behaviour because of the uncertain, and resource-poor situations entrepreneurs typically face (Baum, 2003).

Regulatory focus theory is considered helpful in explaining how entrepreneurs regulate their own behaviour to achieve desired ends (Baron, 2003). Individuals

tend to adopt either a promotion or a prevention focus. The goal of promotion-focused behaviour is the attainment of positive outcomes, whereby many hypotheses may be generated and all possible means to achieve them are explored. Prevention-focused behaviour seeks to avoid negative outcomes (Baron, 2003).

The literature generally agrees that the entrepreneurial task includes: creating the new venture, evaluating the opportunity; deployment to market and exploiting opportunity (Markman and Baron, 2003). One study suggests that the required personal capabilities include: opportunity recognition, social skills, personal perseverance, human capital and self-efficacy (Markman and Baron, 2003). Another lists five categories of activities that must be performed during start-up, including: gathering market information, estimating potential profit, finishing the groundwork for the business; developing the structure of the company and setting up business operations (Gatewood, Shaver and Gartner, 1995). Scholars are largely silent on exactly how this might optimally be achieved.

Key entrepreneurial behaviours are considered to be: ability to focus on essentials; decision making, flexibility; goal direction; length of work day; management style; organising; planning; problem analysis and risk-reducing behaviour (Chrisman *et al*, 1998). More specifically, a comprehensive study of nascent entrepreneurs found 14 activities typically associated with new venture creation, including: organising a start-up team, preparing a business plan, buying or renting facilities and equipment; asking for funding and applying for the necessary licences or patents (Carter, Gartner and Reynolds, 1996).

A relatively recent series of studies considers how entrepreneurs improvise, deliberately composing and executing novel action without planning and preparation (Hmieleski and Corbett, 2007). The greater the degree of entrepreneurial self-efficacy, the more likely the individual will engage in Improvisational behaviour as a strategy for dealing with uncertainty and change. Improvisational behaviour was found to be positively related to new venture performance within start-ups lead by entrepreneurs who were high in self-efficacy (Hmieleski and Corbett, 2007).

Baum (2003) suggests that the most characteristic entrepreneurial behaviours include: developing and sharing a compelling vision of the future; making use of

prior experience and expert scripts; making quick incremental decisions; borrowing the resources they don't own or control; adapting goals to suit changing circumstances and deliberately benefiting from trial and error. In a longitudinal case study, Lichtenstein, Dooley and Lumpkin (2006) identified three different modes of organising, into which different actions, decisions and interventions enacted by the entrepreneur may be categorised. They termed these visioning, strategic organising and tactical organising modes.

### **2.3.10. Entrepreneurial creativity**

The need for innovation may be the entrepreneurial characteristic that enjoys the greatest degree of consensus among theorists in the domain (Ward, 2004), in spite of empirical evidence which suggests that the majority of entrepreneurial new ventures innovate very little (Shane, 2008; Scheepers, 2004). While innovation incorporates implementation or execution, creativity is concerned with the production of novel and useful ideas (Scott and Bruce, 1994).

Creativity is important because it incorporates the ability to identify opportunities; the development of innovative products and the implementation of distinctive strategy (Ko and Butler, 2007). In less-developed countries, entrepreneurial firms tend to move from imitating established products toward product development and innovation, making creativity increasingly important to new venture sustainability (Ko and Butler, 2007).

An individual's creative capability (Pretorius, Millard and Kruger, 2005) is thought to require motivation (El-Murad and West, 2004), be dependent on his or her self-efficacy, the amount of relevant knowledge individuals have at their disposal (Ko and Butler, 2007) and creative thinking skills and procedures (Pretorius *et al*, 2005). Individuals are believed to be most creative when they have a passionate desire to achieve something (Amabile, 1998). A minimum level of intelligence is a requirement for only a few measures of creativity (Runco, 2004).

Creative motivation can be stimulated (Amabile, 1998) and creative skills such as divergent thinking and pattern recognition (Runco, 2004) can be learned (Ward, 2004). There is some indication that entrepreneurial training in South Africa does not in general cover the full range of performance requirements (Ladzani and van

Vuuren, 2002), and is particularly lacking in creativity and innovation components (Pretorius *et al*, 2005).

Creativity refers to the way in which individuals approach problems and solutions and their capacity to put ideas together in new combinations (Amabile, 1998), which is in turn influenced by the prior possession of relevant knowledge and skill (Cohen and Levinthal, 1990). Although highly systematic problem solvers seem to struggle to achieve high levels of innovative behaviour, an individual does not need to be a highly intuitive problem-solver to be creative (Scott and Bruce, 1994).

### **2.3.11. *Intuition and learning***

Entrepreneurs often describe their thought processes as intuitive, sometimes even attributing their success to intuition (Mitchell *et al*, 2005). Intuition refers to the ability to access direct knowledge or understanding without the intrusion of rational thought or logical inference (Sadler-Smith and Shefy, 2004) and is thought to be particularly useful in the opportunity-identification process (Mitchell *et al*, 2005). In effect, intuition is the exploitation of tacit knowledge, which is at least partly the result of the knowledge experience that an individual cannot easily articulate (Leonard and Sensiper, 1998).

Venture capitalists place great store on prior experience as a measure of the probability of future entrepreneurial success (MacMillan, Siegel and Narasimha, 1985), possibly because they perceive expert entrepreneurs are more likely to succeed. Expert entrepreneurs are thought to perceive information differently from novices, noticing that which is relevant and perceiving good solutions, even in highly complex and uncertain situations (Read, Wiltbank and Sarasvathy, 2003). When the future is difficult to predict by rational means, the ability to discern intuitive insights can be particularly helpful (Sadler-Smith and Shefy, 2004).

Scholars note that it is important to distinguish between the stock of skills, experience and abilities with which an entrepreneur enters the entrepreneurial process and the learning that takes place during and as a result of the new venture-creation process (Cope, 2005).

With respect to the stock of learning the entrepreneur brings to new venture creation, management, industry and start-up experience is relevant (Politis, 2005). This effectively indicates the level of preparedness of an individual to embark on entrepreneurship (Cope, 2005). Experience provides tacit knowledge that facilitates decision making under uncertainty and time pressure (Politis, 2005; Sternberg, 2004), and facilitates creativity (Cohen and Levinthal, 1990).

Learning helps entrepreneurs to identify new opportunities because they can consider a wider possible range and more readily detect the most promising. The probability of successful exploitation is also increased because the cost of doing so is lowered (Politis, 2005). Learning also provides methods and heuristics that help individuals to solve complex problems more effectively (Cohen and Levinthal, 1990) and more quickly. Increased knowledge in a particular field also helps the entrepreneur to focus attention on what is most important and facilitates the integration and accumulation of new knowledge (Shepherd and DeTienne, 2005).

Experienced entrepreneurs cope better with the liabilities of newness and smallness by being better able to access resources and leverage an established relationship network (Cope, 2005). However, entrepreneurial expertise is not dependent on simple intelligence, nor is it generalisable out of context (Read *et al*, 2003). Sternberg (2004) suggests entrepreneurs are characterised by success intelligence, a combination between creative, analytical and practical intelligence.

During new venture creation, entrepreneurs learn from their own experience and they learn vicariously, both by observing the behaviour of other entrepreneurs and through advice and assistance from a network of business and social relationships. Such networks are in effect learning systems (Cope, 2005). Entrepreneurs are not necessarily good students in a formal sense, however (Sexton, Upton, Wacholtz and McDougall, 1997). In terms of formal development programmes, entrepreneurs prefer short bursts of information that are highly specific to their context, and prefer to learn from other entrepreneurs (Sexton *et al*, 1997).

Older entrepreneurs are less likely to adjust their beliefs about the business and its environment rapidly, instead giving much more weight to prior experience than new information (Parker, 2006). This may make them more susceptible to making

inappropriate decisions simply because they have made them before (Politis, 2005). This is not to argue that experienced entrepreneurs do not make mistakes, instead they view failure as an opportunity for reflection, the process that brings meaning to experience (Cope, 2005).

### ***2.3.12. Making sense of the experience***

The less-than-fruitful attempts to find enduring personality traits and other dispositional measures highlight the need for theorising on the subjective experience of the entrepreneur (Hoang and Gimeno, 2005). Of particular interest is the way in which entrepreneurial behaviour can be explained by the individual's perceptions, attitudes and motivation towards entrepreneurial activity.

Structural identity theory suggests that individuals engage in entrepreneurial activity because they seek to verify important self conceptions (Murnieks and Mosakowski, 2007). Individuals believe that entrepreneurs possess certain traits, and if they take on an entrepreneurial role, they will be motivated to act out those traits until they are successful at achieving relevant feedback from others (Murnieks and Mosakowski, 2007). Entrepreneurial activity is thought to be ideally suited to allowing the individual to pursue his personal desires and to enact their subjective representations of reality (Kisfalvi, 2002). Often, the entrepreneur's identity is so wrapped up with that of his organisation that he cannot readily distinguish between the two (Howorth, Tempest and Coupland, 2005)

The individual receives important psychological benefits from defining his identity as an entrepreneur: there are feelings of satisfaction derived from being part of the entrepreneurial group; from receiving positive feedback from others (Hoang and Gimeno, 2005); and from knowing that he is in some way unique and different from others (Howorth et al, 2005). The use of metaphor is said to play an important role in the entrepreneur's attempt to construct a viable sense of self (Down and Warren, 2008).

However, it is sometimes argued that tendency to describe the entrepreneur as mythical heroic figure (Nicholson and Anderson, 2005; Ogbor, 2002) may serve simultaneously to hide the true nature of the experience and/or to discourage the

more tentative aspirant entrepreneur from pursuing new venture creation (Down and Warren, 2006).

Entrepreneurs are said to operate at the edge of what they do not know (Nicholson and Anderson, 2005; Hill, 1995), and are often deeply emotionally involved with their businesses (Branzei and Zietsma, 2004). The uncertain and ambiguous environments they occupy are often difficult to understand and even more difficult to explain to others (Gaddefors, 2007; Hill, 1995).

As a result, entrepreneurs use colourful, exciting language (Branzei and Zietsma, 2004) and often make extensive use of metaphor when they describe the opportunities they are intent on pursuing (Gaddefors, 2007) and their experience in new venture creation. The use of metaphor helps entrepreneurs to interpret large amounts of data, articulate evocatively, communicate experiences with high emotional content (Ortony and Fainsilber, 1987) and to distinguish between what is important and what is unimportant (Hill, 1995).

In many ways, metaphors create realities and guide future action because they define and reinforce experiential coherence (Nicholson and Anderson, 2005), and effectively make meaning (Krauss, 2005). Entrepreneurs do not merely tell stories about the entrepreneurial experience, they enact them, so that the stories provide legitimacy and accountability for their actions (Pentland, 1999).

Two seminal studies of the metaphors entrepreneurs use illustrate how they view themselves (Dodd, 2002). In her study of secondary data comprising 24 high achieving entrepreneurs' descriptions of their experiences, Dodd (2002) found that the metaphors entrepreneurs used included: journey, race, parenting, building, war, lunacy and passion. In his survey of entrepreneurs, managers and others, Koiranen (1995) uncovered six key metaphors to describe the entrepreneur: as creative or industrious actor, as a special character or feature; as machine or other physical object; as natural phenomenon; as sportsman or gameplayer; and as adventurer or warrior.

Such analyses also provide insight into the dominant ideology of a particular culture (Koiranen, 1995). For example, the metaphors used by entrepreneurs in the USA emphasise verbs and are often highly emotionally charged (Dodd,

2002), while Northern European metaphors are much more emotionally neutral (Koiranen, 1995).

By examining the metaphors that entrepreneurs use to describe the new venture experience, a deep understanding is achievable, because metaphor is a way of seeing and organising reality (Cornelissen, 2005), which makes sense of the way people think about entrepreneurship (Koiranen, 1995), revealing shared beliefs (Hill 1995) and potential ideological distortions (Koiranen, 1995), both through the metaphor used and through the distinctive response they are designed to evoke (Reimer and Camp, 2006). In effect, meaning is constructed through the use of a metaphor.

For example, one of the more common metaphors used by American entrepreneurs in describing the new venture-creation process is that of parenthood (Cardon, Zietsama, Saporito, Matherne and Davis, 2004). By systematically applying this metaphor to the new venture creation, scholars have helped to surface new perspectives and make entrepreneurship less mysterious (Cardon *et al*, 2004).

If the entrepreneurial experience is so emotionally and cognitively intense, it is perhaps surprising that so little attention has been paid to the moral (Anderson and Smith, 2007) and spiritual (Dodd and Seaman, 1998) dimension of entrepreneurship. Anderson and Smith (2007) compare and contrast the personal narratives of a legitimate and a criminal entrepreneur and conclude that entrepreneurship is a role that requires society to bestow legitimacy and endorse authenticity, and there is therefore pressure to conform to moral norms and behaviours.

The desire to differentiate between entrepreneurs and non-entrepreneurs again leads to disappointing results in a study of religious affiliation, attendance and impact (Dodd and Seaman, 1998). However, the authors speculated that in any society or group, religious legitimisation of entrepreneurial activity could add to environmental munificence. In addition, affiliation with a particular religion might add important volume to personal and professional networks (Dodd and Seaman, 1998).

## 2.4. The social context

One of the disadvantages of focusing on the individual as the primary subject of entrepreneurship research was that the social context (Reynolds, 1991) in which he or she operated was for decades largely ignored (Jennings and McDougald, 2007; Steier, 2003).

By social context, this section of the review refers to three separate, but related, areas of entrepreneurial theorising and research. The first is concerned with the domain of social psychology, the second to sociology's embeddedness perspective and the third relates to the social values shared by a particular community or society, and therefore dealt with as part of 'The Environmental Context' in Chapter 2.5. This chapter is particularly relevant to the current study given that key social factors in South Africa are thought to inhibit entrepreneurial development.

Social psychology may be defined as 'the scientific study of the personal and situational factors that affect individual social behaviour' (Shaver, 2005). This incorporates both interpersonal and intrapersonal processes. Many aspects of intrapersonal social psychology, such as cognitive bias, affect and attribution, have been dealt with under the 'personal context' section of this review on the grounds that they are concerned with analysis at the level of the individual. This section therefore focuses on the literature covering interpersonal processes relevant to the study of entrepreneurship.

The relatively recent embeddedness perspective argues that people are not stand-alone decision-makers but are deeply involved in networks of family and social or business relationships (Aldrich and Cliff, 2003; Greve and Salaff, 2003). These networks act to either facilitate entrepreneurial activity or to constrain and inhibit it (Jack and Anderson, 2002), making social factors as important as legal and economic factors (Bygrave and Minniti, 2000).

### ***2.4.1. Social psychology perspective***

Social comparison theory suggests that individuals will actively seek to evaluate their own opinions, preferably against objective standards, but if there are none available, they will compare themselves to others in a way they believe is relevant (Shaver, 2003). Given that entrepreneurs, who often describe

themselves as outsiders (Kets de Vries, 1985), will expend time and energy seeking out other entrepreneurs in networks and professional associations (McDade and Spring, 2005; Hudson, Gordon and Taljaard, 2006), and claim they learn best from other entrepreneurs, it seems possible that their desire for interaction with each other is for the purpose of undertaking social comparison (Shaver, 2003).

This need for comparison, together with the cognitive bias known as the availability heuristic (Shaver, 2003) also explains why the entrepreneurial experience is often described in formulaic terms (Nicholson and Anderson, 2005). When individuals are required to make judgements about an uncertain reality, they have a tendency to reach for the most easily recalled data to support their argument. Entrepreneurs will frequently use highly available targets such as Bill Gates or Richard Branson as the basis of comparison with their own vision and efforts (Shaver, 2003).

Applying Thomas Scheff's social deference theory to entrepreneurs' interaction with others provides important insight into why entrepreneurs behave the way they do (Goss, 2005). In all interaction with others, individuals are continuously assessing, both consciously and unconsciously, the extent of explicit or implicit deference being extended to them. High levels of deference engender intense feelings of pride, while losses in deference engender intense feelings of shame (Goss, 2005). These feelings are not simply the result of the immediate reaction but are also based on a life history of such interactions.

This system provides the basis for social control of individual behaviour, because groups confer deference and can withdraw it, depending on whether the individual behaves appropriately. Family socialisation can produce individuals who are unbalanced on the pride/shame continuum. A shame imbalance would create an individual who is emotionally depressed, conformity seeking and lacking the motivation to engage in innovation. A pride imbalance would create an individual who is ambitious, unafraid of failure and eager to break with convention (Goss, 2005).

When an individual establishes a new venture, she ensures the deference of others by occupying a position of power, while simultaneously protecting herself from feelings of shame that might be caused by inferior status (Goss, 2005).

#### **2.4.2. *Family embeddedness***

Family dynamics and their impact on entrepreneurial processes have received little attention in the mainstream entrepreneurship literature (Aldrich and Cliff, 2003). The business and the family are often inextricably intertwined (Jennings and McDougald, 2007; Steier, 2003), which acts to influence his motivation, identification and assessment of opportunity, access to resources (Aldrich and Cliff, 2003), overcoming the liability of newness (Steier, 2003) and willingness to persist over time. The family also instills strong moral and religious beliefs which guide entrepreneurial vision and decision-making (Morrison, 2001). Moreover, even when it is not directly involved in financing, the family is often an important source of affective support and a conduit to network contacts (Steier, 2003).

This is vividly illustrated by two empirical findings: a sizeable proportion of new ventures are founded by two or more members of the same family (Aldrich and Cliff, 2003); children of entrepreneurs are more likely to become entrepreneurs themselves (Schindehutte, Morris and Brennan, 2003; Steier, 2003). Social networks amplify the beneficial effects of education, experience and financial capital (Honig, 1998).

The desire to achieve better work-family balance motivates many individuals to start their own businesses and remains a success criterion for male and female entrepreneurs well beyond start-up (Jennings and McDougald, 2007). Entrepreneurs typically use preventative strategies to manage any conflicts in the work-family interface. These include segmentation of one domain from the other; compensation for high dissatisfaction in one domain from high involvement in another. The desire to achieve financial independence and security for the family is another oft-cited motivation for initiating entrepreneurial activity (Jack and Anderson, 2002), despite the high risk involved.

#### **2.4.3. *Network embeddedness***

Social capital, the tangible or virtual resources (Greve and Salaff, 2003) individuals obtain through their relationships with others, appears to be associated with entrepreneurial success (Baron and Markman, 2000). An

individuals' social capital is powerfully influenced by family socialisation and by class origin. Entrepreneurs in higher socio-economic groupings are more likely to have acquired the most useful forms of social capital, and those with the most effective social ties may have a greater incentive to attempt new venture creation (Anderson and Miller, 2003). Especially in developing countries, entrepreneurs place great emphasis on networking with each other for mutual support and exchange of services and information (McDade and Spring, 2005).

Social networks are rich sources of information and advice (Jack and Anderson, 2002), act as a motivational influence (Bygrave and Minniti, 2000) and can assist entrepreneurs in identifying viable opportunities (Hite, 2005; Anderson and Miller, 2003; Reynolds, 1991). A supportive social context can help convince the entrepreneur that an opportunity is both feasible and desirable to pursue (Boyd and Vozikis, 1994).

Moreover, social skills including how the individual perceives and interacts with others may have a powerful influence on the entrepreneur's ability to attract and retain the right resources (Anderson and Miller, 2003), including access to finance (Baron and Markman, 2000), thereby lowering transaction costs (Bygrave and Minniti, 2000). This directly influences how the firm will grow as it tries to borrow, leverage and control resources it does not own (Hite, 2005).

The liability of newness is in part the consequence of the novice entrepreneur's inability to gain the trust and support of key resource providers (Smith and Lohrke, 2008). Novice entrepreneurs can use relationships to add legitimacy and credibility to the offer of the new enterprise (Welter and Smallbone, 2006). Social capital may act as a buffer to the random environmental shocks to which new businesses are so vulnerable (Anderson and Miller, 2003).

Theorists typically distinguish between formal and informal relationships (Birley, 1985) or between strong and weak ties (Anderson and Miller, 2003) in the entrepreneur's network. Formal relationships include those with banks, accountants and other resource holders, who react to specific requests from the entrepreneur. Informal relationships include family, friends and colleagues, who may be much less informed but more willing to listen and give advice.

Entrepreneurs are much more likely to use informal than formal relationships (Birley, 1985), leading to the proposition that the informal system may act as a barrier to the formal system. Weakties are made with a wide variety of diverse, arm's-length relationships, and are more likely to provide novel information than strongties with close family and friends (Anderson and Miller, 2003).

Social capital delivers key benefits to the entrepreneur: reliable, exclusive information (Smith and Lohrke, 2008) and influence, accumulating obligations through interactions with the network and leveraging these at a later time (De Carolis and Saporito, 2006). These interactions create reciprocal goodwill (Fuller and Lewis, 2002), an asset that resides in relationships and includes feelings of gratitude, respect and friendship. However, this cannot develop without trust, which emerges through repeated exchanges in a context of goodwill (De Carolis and Saporito, 2006).

Trust refers to the willingness of a party to be vulnerable to the actions of another party, based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control the other party (Smith and Lohrke, 2008). Trust might arise from reciprocal goodwill, from personal knowledge of another's competence or from trusted third-party information (Hite, 2005). Trust involves a calculated risk, in that the individual must be convinced that trusting is a rational behaviour because the potential risks of the exchange being unfulfilled are justified by the potential gains if the trust is maintained (Welter and Smallbone, 2006).

Personal trust is particularly important in developing economies, where institutional trust in formal organisations, sanctioning mechanisms and codes of conduct may be lacking (Welter and Smallbone, 2006). Where capital markets are rudimentary, financial disclosure limited and contract law weak, interpersonal networks are critical to risk taking, the movement of economic resources and the ability to navigate bureaucratic obstacles (Kristiansen, 2004).

In addition, religious affiliation was believed to multiply the number of potential clients and financial access, which may not have been made available through human capital formation (Honig, 2008). This may be particularly true in South Africa, where religious observance is high (World Values Survey, 2004) and the prevailing cultural value of ubuntu acknowledges the interdependence of all

human interaction and may intensify social relationships that might elsewhere be regarded as ~~weak~~ties (Mangaliso, 2001).

Networks are thought to develop in stages during the process of new venture creation (Smith and Lohrke, 2008). At first, the entrepreneur depends on personal dyadic exchange with friends and family members, contact characterised by its frequency and high levels of emotional intensity (Hite, 2005). This type of interaction is characteristic of the early stages of idea generation and evaluation prior to start-up (Greve and Salaff, 2003).

These dyadic exchanges steadily take on a more socio-economic character as relationships crystallise (Smith and Lohrke, 2008) and concrete plans for the business begin to take shape (Greve and Salaff, 2003). Eventually the network narrows in scope and the relationships become more routine (Greve and Salaff, 2003), becoming organisational rather than interpersonal and governed by contract rather than affect (Smith and Lohrke, 2008; Hite, 2005).

Entrepreneurs deliberately create relationship networks they believe will assist the new venture, not only with direct stakeholders but also with informal industry networks, professional associations and mentors (Ozgen and Baron, 2007). They tend to view their relationships from a long-term perspective and typically invest significant time and energy in developing and maintaining them (Fuller and Lewis, 2002).

The quality of an entrepreneur's network is therefore determined by the number of relations in the network, the strength of the ties, the variety and diversity of networks and the dynamic interplay between networks (Kristiansen, 2004).

## **2.5. The business context**

This section explores the way in which entrepreneurs find new venture opportunities, develop strategy for capitalising on the opportunities and build organisations to implement the strategy. In particular, it explores the possibility that in South Africa, opportunity identification and strategy development skills are poor, risks are greater or resources too scarce to make new venture creation feasible.

The entrepreneurship literature at the business level of analysis has generally been derivative of the strategic management literature, and as a result displays some of the paradigmatic development of that field. A more recent body of work focuses on the kinds of organisations and strategies associated with entrepreneurial activity (Morris, Schindehutte and Allen, 2005; Kisfalvi, 2002). Especially latterly, theory tends to focus on multiple levels of analysis; typically the personal and the business level, or the business and the environment level.

### ***2.5.1. Discovery, development and evaluation of opportunity***

The opportunity is increasingly at the centre of research and theorising about entrepreneurship (Shepherd and DeTienne, 2005), to the extent that some theorists argue that the heart of entrepreneurship is the ability to see opportunities regardless of resources (Krueger, 2000). Opportunities may be described as those situations in which new goods, services, raw materials and organising methods can be introduced and sold at more than their cost of production (Shane and Venkataraman, 2000).

Drucker (1985) describes seven sources of opportunity, arising because of changes in environmental conditions (described in Table 4).

**Table 4. Sources of innovative opportunity<sup>3</sup>**

<p><b>Changes within the enterprise or industry (symptoms of changes outside)</b></p> <ul style="list-style-type: none"> <li>- Unexpected success or failure</li> <li>- Any incongruity between what is and what ought to be</li> <li>- Process needs</li> <li>- Unexpected change in industry or market structure</li> </ul> <p><b>Changes outside the enterprise or industry</b></p> <ul style="list-style-type: none"> <li>- Changes in demographics</li> <li>- Changes in perception, mood and meaning</li> <li>- New knowledge, both scientific and non-scientific</li> </ul>
--

Bhave (1994) found that two distinctive routes to opportunity were empirically discernible. The first, termed *externally stimulated opportunity recognition* occurs when an individual has already made the decision to create a new venture, and engages in an active search for an appropriate opportunity vehicle that will enable him/her to execute the decision. The second route, *internally stimulated opportunity recognition* occurs when an individual identifies a problem or an unmet need and tries to find a solution (Bhide, 1994). Only when he or she begins to realise that the need is widespread and the solution novel, does the individual recognise that he or she has defined an opportunity (Bhave, 1994).

There is some theoretical debate about whether opportunities are *recognised*, *discovered* or *created* a debate which concludes that these three different views of opportunity reflect increasing degrees of situational novelty and individual creativity (Sarasvathy, Dew, Velamuri and Venkataraman, 2005). Theorists agree that individuals do not all notice the change at the same time, because of differences in their characteristics, skills and experience (Shane, 2003).

Three key factors are believed to influence entrepreneurial *alertness*, the propensity to notice and be sensitive to relevant information, which determines the probability of any one individual finding a particular opportunity. Firstly, the entrepreneur must already have some information that is in some way related to the potential opportunity. The higher the degree of prior knowledge, the higher the degree of innovativeness associated with the identified opportunity (Shepherd and DeTienne, 2005). Secondly, the entrepreneur must have the ability to combine resources in a new way, requiring a particular set of cognitive properties

---

<sup>3</sup> Adapted from Drucker, PF, 1985. Innovation and entrepreneurship: practice and principles, Classic Collection Edition, Butterworth-Heinemann, Oxford.

(Shane and Venkataraman, 2000). Thirdly, the entrepreneur must have relatively high levels of self-efficacy (Krueger, 2000).

An entrepreneur's idiosyncratic life history, including education and career experiences, is thought to channel individuals into different knowledge corridors developing different stocks of information and enabling an individual to recognise some opportunities but not others (Cliff, Jennings and Greenwood, 2006).

Initially, an opportunity may look like a vague market need or like resources or capabilities are not being used effectively (Ardichvili, Cardozo and Sourav, 2003). Having noticed the change, entrepreneurs respond by combining resources to create new and more productive configurations (Drucker, 1985). In effect, entrepreneurs *develop* the opportunity, defining the market need more carefully and considering what resources might be required to meet the need (Ardichvili *et al*, 2003).

The entrepreneur decides whether and how the opportunity may best be exploited. This decision may be influenced by a wide variety of differences between attributes of the individual and attributes of the opportunity (Shane, 2005). The opportunity is more likely to be exploited if the potential value of the opportunity is perceived to be high, that is when: markets are larger, profit margins are higher, levels of competition are lower, and capital is cheaper (Shane and Eckhardt, 2005).

Individual attributes influencing the decision to exploit include: demographic variables such as age, education and income; family and social network influences (Shepherd and DeTienne, 2005); personality characteristics and cognitive ability and the presence or absence of cognitive bias (Shane, 2003). Entrepreneurs may become heavily emotionally invested in their chosen opportunities, which in turn fuels the optimism of their projections and reinforces their commitment to invest time, talent and money in an uncertain future (Branzei and Zietsma, 2004).

Ardichvili *et al* (2003) argue that opportunity development is an iterative and cyclical process, throughout which evaluations of desirability and feasibility repeatedly occur. These evaluations may not necessarily be formal, or even explicitly articulated. As the opportunity is developed, it becomes a more complex

and well-defined business concept, and eventually evolves into a business model, which forms the basis of a business plan. Entrepreneurs will typically minimise the resources they devote to researching business ideas (Bhide, 1994).

This process of opportunity evaluation is probably not as rational and linear as some of the literature might suggest (Krueger, 2000). Credible opportunities are not just objectively viable, they must be perceived to be viable (Krueger, 2000). Business founders have been shown to be less likely to perceive the risks logically connected to the opportunities they have selected (Branzei and Zeitsma, 2004).

Opportunities may also be discovered by chance, when events that occur during the process of starting and developing a venture are not predictable based on the characteristics of the individual or the context (Bouchiki, 1993). Chance events are thought to transform, in an unexpected way, either the individual or context, with significant consequences (Bouchiki, 1993).

In developing countries, opportunities are argued to be pervasive and broader in scope, and characterised by lower levels of competitive intensity (Lingelbach *et al*, 2005). This suggests that opportunity development might be somewhat less of a priority in the new venture-creation process than might be the case for entrepreneurs in the developed world, where opportunities are scarce and competition is fierce.

### **2.5.2. Risk and uncertainty**

Most economic theories of the entrepreneur focus heavily on uncertainty and the risk that accompanies it (Gifford, 2005). However, there are several different conceptualisations of risk in the literature which capture different phenomena (Janney and Dess, 2006). Risk as variance refers to the spread of potential outcomes, good or bad. Downside risk refers to the likelihood and magnitude of loss while risk as opportunity focuses on potential upside gain. The most appropriate way for entrepreneurs to measure risk is thought to be the likelihood and magnitude of downside loss (Janney and Dess, 2006).

Based on empirical analysis, Sarasvathy (2006) states that entrepreneurs tend to evaluate risk on the basis of the affordable loss principle, whereby

entrepreneurs calculate how much they are willing to lose and then make an assessment on the basis of a worst-case scenario. An alternative perspective sees entrepreneurs as facing two major risks: either of acting too quickly on an unsubstantiated opportunity or of overlooking a very attractive opportunity (Mullins and Forlani, 2005).

There are many possible explanations for why some individuals might be willing to take risks that others would prefer to avoid. Some theorists suggest that wealth reduces risk aversion (Gifford, 2005). Others suggest that entrepreneurs are more optimistic (Palich and Bagby, 1995), or that they are more prone to cognitive bias such as counterfactual thinking (Baron, 2000), overconfidence or the belief in the law of small numbers (Simon *et al*, 1999), or that they suffer from the illusion of control (Keh, Foo and Lim, 2002). Several studies report that entrepreneurs specifically see themselves as risk-averse (Sarasvathy, 2006).

Another explanation is that entrepreneurs are more optimistic because they have more knowledge about the opportunity and their own capabilities. This investment in human capital is not necessarily visible to others, who may therefore interpret the individual's willingness to pursue an opportunity as risk-tolerant (Gifford, 2005).

Latterly, the literature appears to be reaching consensus that entrepreneurs do not differ from non-entrepreneurs in terms of their risk propensity, or tendency to either take or avoid risk within a particular kind of decision context. Rather entrepreneurs differ in terms of their perception of the risk inherent in a particular situation (Mullins and Forlani, 2005). More specifically, entrepreneurs naturally categorise risk more positively (Palich and Bagby, 1995). In any event, entrepreneurs are believed to face entirely different risks from those facing non-entrepreneurs (Janney and Dess, 2006).

The risk propensity of entrepreneurs in developing countries has not been thoroughly researched. Arguably, they differ from their developed-country counterparts in terms of degree of personal risk they seem willing to take. Often, everything the entrepreneur owns is tied up in the business, they have no access to useful formal or informal networks and no meaningful employment opportunities outside the venture (Morris and Zahra, 2000).

The entrepreneur in a developing country will often adopt a portfolio approach to managing risk, by diversifying across a series of different opportunities with different cash-flow needs, but all able to access a central pool of resources. Although competitive threats are reduced, the nascent firm is typically more vulnerable to uncertainties of an economic, political and regulatory nature (Lingelbach *et al*, 2005). This is reinforced by the finding that in South Africa, most successful entrepreneurs have more than one business operating simultaneously (Hudson *et al*, 2006).

### **2.5.3. Resource gathering**

All start-ups require some basic resources such as money, people and information to begin operations. Entrepreneurs who must construct a resource base to initiate a new venture face a significant challenge. Not only must they undertake the complex task of identifying, assembling and acquiring the resources, they have no reliable way to estimate what might be required, from whom or by when (Brush, 2001).

Resources are traditionally categorised into six types: human, financial, physical, technological, organisational and social (Brush, 2001). Only recently have theorists begun to recognise that the entrepreneur's ability to take a concept, add information about how to access and combine resources and to deploy and exploit these resources is in itself a unique resource capable of achieving and maintaining competitive advantage in its own right (Alvarez, 2005). Access to information is also considered a key resource, particularly in developing countries (Lingelbach *et al*, 2005).

New ventures that have sufficient resources are thought to be at an advantage because resources: provide a buffer the entrepreneur can draw on in adverse circumstances; lead stakeholders to perceive the organisation as successful, legitimate and dependable (Shane, 2003); as well as providing the basis for competitive advantage (Collins and Montgomery, 1995).

Most entrepreneurs fund the start-up of their businesses from their own savings or using the resources of friends and family (Shane, 2008). Entrepreneurs must find ways to attract resource holders even though both the individual and the enterprise may lack a relevant reputation and track record (Brush, 2001).

Entrepreneurs typically leverage their own human, financial and social capital to gain access to the resources they need (Brush, 2001). When entrepreneurs are unable to finance their businesses themselves, they seek investors, to help spread start-up risk, accumulate resources or to finance growth and expansion (Gnyawali and Fogel, 1994).

From the funders' perspective, a new enterprise is fraught with risk. Funders nevertheless rely heavily on their perceptions of the entrepreneur when making investment (MacMillan, Siegel and Narasimha, 1985) and lending (Nieuwenhuizen and Kroon, 2003) decisions. In a study of bankers' loan appraisals, three of the top five factors considered responsible for small business success were related to the personal characteristics of the entrepreneur (Nieuwenhuizen and Kroon, 2003). In a classic study of venture capital decision making, personality and experience characteristics of the lead entrepreneur were considered more important than financial criteria, which in turn were regarded as more important than product or market criteria (MacMillan *et al*, 1985).

In developing countries, entrepreneurs generally have far poorer accessibility to funding, partly because of a lack of innovation in capital markets and partly because the cost of accessing start-up credit may exceed the benefits gained from small loan amounts (Wynne and Lyne, 2003).

As a result, developing country entrepreneurs tend to finance their ventures with their own savings (Lingelbach *et al*, 2005; Sleuwagen and Goedhuys, 1998), either from salaries or retained earnings from a previous business. Lack of personal wealth on the part of the entrepreneur dramatically reduces the firm's expected growth rate (Sleuwagen and Goedhuys, 1998) and constrains business expansion (Hudson *et al*, 2006). Alternatively they use cash flow generated from one business to fund a new venture. Once established, new firms may use a variety of unconventional strategies to obtain finance (Lingelbach *et al*, 2005).

#### **2.5.4. Strategy process**

Lenders, venture capitalists, textbooks and the popular literature about entrepreneurship tend to place heavy emphasis on the importance of developing a business plan, despite empirical evidence that questions the usefulness of a

comprehensive approach to planning for most start-ups (Bhide, 1994; MacMillan *et al*, 1985).

The planning literature is dominated by two models of strategy formulation: a rational paradigm emphasising the formal systematic model of strategic planning; and an incremental paradigm emphasising the emergent character of the strategy process (Gruber, 2007; Mintzberg, 1991). Proponents of the first paradigm suggest that entrepreneurs benefit from formal planning because it allows them to spot missing information and examine their assumptions without expending resources.

Proponents of the second paradigm argue that formal planning reduces responsiveness, lengthens decision processes and inhibits learning (Gruber, 2007). In any event, the greater the innovation in the new venture, the less likely it is that objective data exists (Woo *et al*, 1994). The empirical evidence suggests that in highly dynamic environments, entrepreneurs perform better when they speed up the planning process and concentrate on a few important activities. Entrepreneurs who operate in low-dynamism environments perform better when they plan in depth (Gruber, 2007). Some scholars argue that the new venture is an experiment with implicit hypotheses which can only be tested through experience (Woo *et al*, 1994)

Kisfalvi (2002) notes that entrepreneurs must constantly reality test their plans and perceptions and become aware of their own subjectivity, as they may be more susceptible to a range of cognitive errors as a result of the high-pressure, uncertain environments in which they operate. Escher *et al* (2002) investigated the relationship between cognitive ability, business planning and business success among South African business owners. The study found a clear relationship between planning and success among low-cognitive ability business owners, but no such relationship for high-cognitive ability business owners. In this regard, planning is believed to compensate for low cognitive ability (Escher *et al*, 2002).

Another scholar stresses that most entrepreneurs lack the time, money and information to plan in detail. Instead they tend to: screen opportunities quickly; analyse ideas parsimoniously; and integrate action and analysis (Bhide, 1994). Their strategies are said to take shape through their actions (Kisfalvi, 2002).

Entrepreneurs will often take action experimentally, or improvise (Hmieleski and Corbett, 2007) relatively early in the venture-creation process, to generate more robust, better-informed business strategies. They will not only seek opinions and information, but will be informed by the interest and commitment of others (Bhide, 1994).

An alternative perspective argues that an individual's early experiences shape their character and life issues and that these are then played out in their personal and professional lives (Kisfalvi, 2002). This makes the strategies that entrepreneurs pursue personally and emotionally meaningful. The entrepreneurs' top strategic priorities were found to be closely associated with personal life issues, and their obliviousness to particular strategic issues and developments in the business was argued to be the result of their lack of connection to personal life issues (Kisfalvi, 2002). This reinforces the notion that strategies are both plans for the future and patterns from the past (Mintzberg, 1991).

Even when there has been a comprehensive opportunity-development process, the entrepreneur is likely to find that the ability to achieve or maintain success will require adaptation of the business process over time (Morris and Zahra, 2000). It is suggested that the entrepreneur keep the plan fluid, provisional and subject to revision (Sull, 2004). Survival of the new venture may be a function of the entrepreneur's ability to learn from reading and adapting patterns in the environment (Morris and Zahra, 2000).

A study of the temporal patterns of new venture creation found that the average gestation period is 32 months, with 60% of the sample taking 48 months (Liao, Welsch and Tan, 2005). This is especially interesting in light of the finding of a recent study that entrepreneurs generally defined the long-term future as three years ahead (Bluedorn and Martin, 2008). The adaptation process is made more difficult by the high levels of ambiguity that entrepreneurs face. Ambiguity refers to situations in which features are inconsistent, ambiguous or paradoxical, making information gathering difficult, cause and effect relationships unclear and multiple interpretation of events possible (Morris and Zahra, 2000).

In South Africa, black entrepreneurs have historically faced high levels of ambiguity in the form of a host of arbitrary laws inhibiting normal operations, a constantly changing labour pool and high levels of crime and violence. In this

context, the adaptation of the business concept over time was found to be significant, particularly in products and services provided, personnel, marketing and facility requirements (Morris and Zahra, 2000). This reinforces the notion that new venture creation is a process of multiple trials, the success of which depends on the individual's ability to attend to feed-back and to learn from it (Woo et al, 1994).

### **2.5.5. Strategy content**

Classically, strategy comprises three core objectives: the creation of value for customers or shareholders; the imitation/innovation relative to competitors; and the definition of organisational scope (Fréry, 2006). In addition, in formulating strategy for the new enterprise, the entrepreneur must concern himself with a further two major issues: the achievement of competitive advantage without disclosing the true nature of the opportunity to competitors; and the management of uncertainty and information asymmetry in the process of extracting value from an opportunity (Shane, 2003). Entrepreneurial strategy can be effectively evaluated using four dimensions of: consonance with the external environment; internal consistency; feasibility and sustainable competitive advantage (Rumelt, 1991).

Entrepreneurs and investors often use the term *business model* to describe the core components of value creation for a proposed business (Chesbrough and Rosenbloom, 2002), which starts out as a hypothesis or mental model of how the business will work (Sull, 2004). The business model describes how the firm will create value and sustainable advantage as well as setting out the guiding principles or operating rules (Morris Schindehutte and Allen, 2002). Six components of the business model help define the *architecture* of the proposed business, as illustrated in Table 5:

**Table 5. Components of the business model<sup>4</sup>**

<b>Value proposition</b>	What is being created for users?
<b>Market segment</b>	Who uses it? What do they use it for? How will they pay?
<b>Structure of the value chain</b>	How will the firm create and distribute the offering?
<b>Profit potential</b>	Estimate the cost structure and profit potential
<b>Position in value network</b>	How is the firm linked to suppliers and customers?
<b>Competitive strategy</b>	How will the firm gain and hold advantage over rivals?

Given the significance of innovation to the new venture-creation process, some theorists view the entrepreneur's choice of innovation strategy as predictive of future success (Vertinsky, 2003). Three key choices must be made on the scope and significance of the innovation and the preferred approach for implementing the innovation. Innovations which were broad in product-market scope, and followed more comprehensive implementation plans, were found to be more likely to be successful (Vertinsky, 2003).

Bruyat and Julien (2001) define a typology of innovation in new venture creation as consisting of four distinctive categories : reproduction, in which there is little new value creation and no innovation; imitation, in which there is no significant value creation but changes in the individual are required; valorisation in which there are high levels of innovation and significant new value is created; and venturing, which leads to radical change in the environment and significant new value is created.

Of particular significance is the choice of timing market entry, which influences the magnitude of the venture's mortality risk (Lévesque and Shepherd, 2004). This is a critical strategic decision because while an entrepreneur is exploring and developing the opportunity, he or she is collecting information and experience that will help with exploitation . the longer the exploration, the more effective the exploitation. However, there are a number of benefits to early entry, including the potential for leading the market in terms of experience curve effects, access to early-adopter segments and expertise accumulation. The decision to shift from exploration to exploitation requires that attention and resources must be irreversibly committed. It is argued that exploitation should be expedited for low-novelty opportunities, while higher-novelty opportunities require more thorough exploration (Choi, Lévesque and Shepherd, 2007).

---

<sup>4</sup> Adapted from Chesbrough H and Rosenbloom RS, 2002. The role of the business model in capturing value from innovation, *Industrial and Corporate Change*, 2002 Volume 11 Number 3 page 529-555

As part of strategy development, entrepreneurs must also decide on the boundary of the firm. In this respect, the decision to establish alliances is most relevant to the new enterprise. Eisenhardt and Schoonhoven (1996) argue that alliances can improve competitive position by providing financial and information resources that enable cost and risk sharing, and by adding credibility to the new venture. Difficult market conditions and high-risk strategies were found to increase the rate of alliance formation (Eisenhardt and Schoonhoven, 1996).

The strategy-based entrepreneurship literature has begun to turn its attention to the development of a contingency approach which suggests that particular strategic postures are effective in different stages of industry development. For example, it has been found that differentiated strategies outperform focus strategies in the early stages of industry evolution (Sandberg and Hofer, 1987). Firms pursuing broad growth strategies and operating in high-growth industries are generally the fastest growing (McDougall, Covin, Robinson and Herron, 1994).

The definition of a series of strategy typologies is also relatively recent. For example, Williams and Tse (1995) found some evidence of a relationship between Miner's (2000) entrepreneurial types and Miles and Snow's (1978) typology of strategy. A resource-based view suggests that where a venture's initial resources and the entrepreneur's skills are modest, a low-growth strategy is safest, while substantial resources and capabilities can safely plan for relatively high growth (Reynolds, 1987).

Although, in developing countries, new ventures are thought to have a disproportionate impact on domestic job creation and economic development, little is known about their competitive strategy and growth patterns. Park and Bae (2004) considered technological capability, product-market maturity and target market as three dimensions of a typology of new venture strategies thought to be operant in developing countries, as illustrated in table 6.

**Table 6. Typology of new venture strategies in a developing country<sup>5</sup>**

<b>Reactive imitator</b>	Local followers in local existing market in maturity or decline
<b>Import substitution</b>	Local pioneers in local existing market
<b>Proactive localisation</b>	Local followers in local emerging market
<b>Creative imitation</b>	Local pioneers/global followers in local emerging/global existing market
<b>Global niche</b>	Global pioneers in a global existing market
<b>Early market entrant</b>	Global followers in a global emerging market
<b>Global innovators</b>	Global pioneers in a global emerging market

In developing countries, inadequate access to capital and fragmented distribution channels may require entrepreneurs to begin their businesses downstream, with direct access to the end consumer, then leverage their knowledge and experience to vertically integrate (Lingelbach *et al*, 2005).

An important but neglected component of entrepreneurial strategy is that relating to exit, the process by which the founder of the firm leaves it, removing him or herself from the primary ownership and decision-making of the firm. This is argued to be most likely to happen in the earliest stages of new venture conception and infancy rather than in maturity (DeTienne, 2008).

### **2.5.6. Organisation building**

As organisations grow, they pass through a series of developmental phases including evolutionary growth and revolutionary upheaval (Greiner, 1972), which must be successfully navigated if the organisation is to become sustainable in the longer term (Greiner, 1972). The first two phases are of most relevance to this study, namely the birth stage, in which founders are technically oriented and barely involved in management activities. Once past this stage, new employees enter the organisation and tend to be less dedicated to the business, while the founders struggle to balance management responsibility with the need to actively build the organisation (Greiner, 1972).

The founding entrepreneur is believed to leave an enduring imprint on the strategy, structure and culture of the firm (Cliff Jennings and Greenwood, 2006),

---

<sup>5</sup> Adapted from Park and Bae, 2004. New venture strategies in a developing country: identifying a typology and examining growth patterns through case studies, *Journal of Business Venturing*, 2004 Volume 19 page 181-205

as he or she creates the routines and structures that support the goal-directed activities of the enterprise (Shane, 2003).

The extent to which a firm exhibits organisational innovation and novelty is argued to depend on the founder's previous experience (Cliff *et al*, 2006). Within any industry, there is a dominant template about how activities can most effectively be organised. Individuals with prior experience in a high-performing organisation that practices the dominant template have been found to duplicate the template in their own new venture-organising processes (Cliff *et al*, 2006).

When building an organisation to execute their vision, entrepreneurs bring to bear a series of blueprints about how work and employment should be organised. These blueprints typically vary along three dimensions: basis of employees' attachment to the organisation, basis of coordination and control; and basis of employee selection (Baron and Hannan, 2002). This allowed the definition of five predominant organisation types, which are believed to be relatively enduring over time, and difficult to change once a particular type has been selected (Baron and Hannan, 2002).

The construct of entrepreneurial orientation (EO) has been influential in the literature, describing both new and existing organisations in terms of five key characteristics, namely: autonomy, innovativeness, risk-taking, proactiveness and competitive aggressiveness. The EO construct was hypothesised to describe the processes, practices and decision-making styles that enable an enterprise to achieve new entry (Lumpkin and Dess, 1996). The approach has been recently criticised for its tendency to confuse the personal and business levels of analysis (Krauss *et al*, 2005) and for the use of measures that are subjective and discretionary (Vecchio, 2003).

### **2.5.7. *New venture survival, success and growth***

There may be as many definitions of new venture survival, success and growth as there are of entrepreneurship. Survival could be termed the absolute measure of venture performance because it depends on the ability of the venture to continue to operate as a self-sustaining economic entity (Chrisman *et al*, 1998).

However, the survival of the new enterprise is not strictly a function of economic performance (Gimeno, Folta, Cooper and Woo, 1997). This is partly because entrepreneurs hold different perceptions about what constitutes success, and these definitions may include both tangible and intangible components (Mitchell, 1997). Commitment occurs of a combination of four factors: the probability of future outcomes; the perceived value of future outcomes; the motivation to justify previous decisions and; personal norms of consistency (DeTienne et al, 2004).

Most new ventures start small and stay small (Reynolds, 1987), possibly because entrepreneurs have different thresholds of performance and survival is determined by whether performance falls above or below the threshold. Owners may accept low levels of performance when they are uncertain about the future, when they hope conditions will improve or when they enjoy a buffer of accumulated financial, knowledge or relationship resources (Gimeno *et al*, 1997). Firms may therefore persist without either success or growth.

Growth is perhaps the most fundamental strategic choice made by a new venture founder, to the extent that this decision is widely considered to differentiate entrepreneurs from small business owners and the self-employed (Gundry and Welsch, 2001). Growth differences are often the result of the entrepreneur's evolving intention, rather than necessarily reflecting the strategic or operational effectiveness of the firm (Dutta and Thornhill, 2007).

High-growth ventures represent a relatively small proportion of the entrepreneurial population, but they account for a disproportionate number of all jobs and wealth created by new ventures (Nicholls-Nixon, 2005; Audia and Rider, 2005). Rapid growth helps the firm to establish credibility in the eyes of customers and employees, to achieve economies of scale, attract investment capital and increase profitability. However, rapid growth is also thought to have disadvantages such as creating internal turmoil, highlighting gaps in skills and systems, and creating a need for extraordinary resources (Nicholls-Nixon, 2005).

## **2.6. The macro-environmental context**

The macro-environment literature focuses on identifying conditions under which venture-creation activity is most likely to occur (Gnyawali and Fogel, 1994). Much of this literature adopts the view that the entrepreneur simply responds to conditions in

the environment, and in this respect the environment actually creates entrepreneurs (Gartner, 1985). If the South African environment is not conducive to entrepreneurship, this would help to explain low rates of new venture creation.

However, it is not clear if a causal relationship between entrepreneurship and conditions in the macro-environment exists (Acs, Desai and Klapper, 2008). In particular, the role of entrepreneurship as a development tool in poorer countries is increasingly being questioned in the literature, because of the low quality of the inputs (Acs and Kallas, 2007). Nevertheless, theorists note that entrepreneurship in developing countries is arguably the least studied significant economic and social phenomenon in the world today+(Lingelbach *et al*, 2005).

Analysis of data from GEM (Acs *et al*, 2004) seems to suggest that developing-country entrepreneurship is distinctive in that: freer, more competitive poor countries do not necessarily have higher rates of opportunity entrepreneurship; recent economic growth is not correlated with higher levels of opportunity entrepreneurship and regulatory conditions do not seem significant either (Lingelbach *et al*, 2005).

At the level of the macro-environment, three main dimensions are generally considered significant, namely the regulatory, the economic and the socio-cultural (Shane, 2003; Rwigema and Venter, 2004). The institutional support environment (Gnyawali and Fogel, 1994) is also considered in this review because of its significance to the South African situation.

### **2.6.1. Regulatory environment**

Accepted wisdom holds that the likelihood of new start-ups is increased when regulations are minimal, tax and other incentives are offered to entrepreneurs, training and counselling services are offered and financial resources are readily available (Gnyawali and Fogel, 1994). Government policy influences the incidence of entrepreneurship positively when there is political freedom, a strong rule of law, property rights and decentralised power (Shane, 2003). The role of government is to provide an enabling business environment that opens access to markets and removes any policy-induced barriers to small business formation and operation (Acs and Kallas, 2007).

The regulatory environment is considered to have a significant impact on a country's economic performance as a whole, and in particular to influence the rate at which new businesses are created. Specifically, regulations relating to the establishment of businesses, contract enforcement and labour relationships are found to act as a disincentive to opportunity entrepreneurs. Regulation also curbs the positive effects of social networks and strengthens the negative effects of risk aversion (Ardagna and Lusardi, 2008).

The procedural requirements for establishing and operating a small business are found to have an influence on new venture formation (Gynawali and Fogel, 1994). The World Bank (2008) argues that bureaucratic start-up procedures limit private investment, increase consumer prices, fuel corruption, and push more individuals into the informal economy.

In South Africa, establishing a business requires eight procedures and takes 31 days. Although these measures have improved in recent years, compared to six procedures in 25 days in high-income OECD countries, there is still believed to be room for improvement. Overall, South Africa ranks 35<sup>th</sup> out of 178 countries on the ease of doing business index (World Bank, 2008).

However, in terms of ease of employing workers, South Africa ranks 91<sup>st</sup> out of 178 countries. Less job creation, smaller company size, less investment in R&D, longer spells of unemployment among workers and reducing productivity and growth are all argued to be side-effects of rigid employment regulations (World Bank, 2008).

In contrast, the rights of investors are well protected, with South Africa ranking 9<sup>th</sup> out of 178 countries, which should encourage investors to have diversified portfolios and should give entrepreneurs easier access to funds. Recent reforms to credit legislation have put South Africa in 26<sup>th</sup> position, as good quality credit information and legal rights are stronger, which should encourage the extension of credit.

The South African regulatory environment is not considered particularly poor, being described as relatively unobstructed relative to comparator countries where market reforms are less advanced (World Bank, 2007).

### **2.6.2. Economic environment**

The incidence of entrepreneurship increases in stable, low-inflationary environments. In developed countries, entrepreneurship increases as wealth increases, but in developing countries the reverse is true (Acs *et al*, 1994).

A supportive economic environment is characterised by reduced income taxes, capital gains taxes and property taxes (Shane, 2003). In South Africa, the burden of compliance with tax legislation is heavy, putting South Africa at number 61 on the taxation sub-index of the ease of doing business rankings (World Bank, 2008). Compliance costs are particularly onerous for small businesses, representing some 8.3% of turnover for businesses with annual sales of less than R1 million (Hudson, 2006). The regulatory burden of VAT alone has been estimated at R8 441 per year (Hudson, 2004). The disproportionate burden on small businesses is the consequence of their limited understanding of their rights and responsibilities relating to taxation, the high administrative burden and their erratic cash flows (Hudson, 2006).

Apartheid economic policy was less than sympathetic to entrepreneurial development, and it created a dual economy: modern high-productivity activity on the one hand and traditional low-productivity informal sector activity on the other. The minimal interaction between the two continues to plague South Africa's development (Hudson, 2004).

Occupying the lowest rung of the ladder of entrepreneurship (Kirsten and Rogerson, 2002), informal sector enterprises tend to be differentiated from formal sector entrepreneurship in terms of motivation, operations and impact.

The informal sector in South Africa employs about 4 million people and accounts for at least 16% of GDP (Morris, Pitt and Berthon, 1996). The growth of the informal sector in South Africa has been dramatic in recent years. However, a booming informal sector is not necessarily a positive characteristic. Not only do informal sector firms escape taxation, informal sector workers earn less than formal sector workers, have no protection and no benefits (Acs and Kallas, 2007). Moreover, productivity is assumed to be low, the scale of operations small and growth potential limited (Morris *et al*, 1996).

This appears to make it a social and economic imperative to convert informal-sector businesses to formal-sector businesses. However, less than 1% of informal-sector enterprises become more established firms employing more than 10 people. Some theorists argue that the regulatory environment represents a barrier to entry to the formal sector and offers incentives for businesses to remain small and informal (Hudson, 2006).

Informal-sector entrepreneurs may have more in common with formal-sector entrepreneurs than was previously considered. They share the same concerns about the impact of crime, infrastructure costs and regulation on their businesses (Centre for Development and Enterprise, 2007). In a study of informal sector businesses in a South African township, it was found that most had been operating for more than three years, at least one job had been created in addition to that of the owner, and future growth was generally anticipated. The authors concluded that, just as around 10% of small business owners in the formal sector could be regarded as entrepreneurial, so too could the same proportion of informal-sector entrepreneurs be classed as entrepreneurial, and therefore capable of graduating to the formal sector (Morris *et al*, 1996).

### ***2.6.3. The institutional and support environment***

In the popular media in Western developed nations, the entrepreneur is often portrayed as a lone individual who relies primarily on his/her extraordinary efforts and talents to overcome difficulties. However, this hides an important feature of new venture creation, that is that many entrepreneurs require substantial assistance in the form of psychological, social and physical resources to successfully implement a new business idea (Audia and Rider, 2005).

The effectiveness of cognitive institutions that make up a country's education system have been shown to have a significant impact on entrepreneurship, explaining the prevalence of small firms and more advanced forms of entrepreneurship (Spencer and Gomez, 2004). One study suggests that every 1% increase in university graduates leads to a 1.2% increase in jobs created by small firms (Gnyawali and Fogel, 1994). The literature suggests that in developing countries, entrepreneurs who start businesses without the requisite skills, education, financial capital and social contacts, usually fail (Acs and Kallas, 2007).

Lack of appropriate training is argued to be the main reason for entrepreneurial failure in South Africa, with trained entrepreneurs having a closure rate half that of untrained entrepreneurs (Ladzani and van Vuuren, 2002). Studies have demonstrated that a higher proportion of adults with university education is correlated with higher rates of new firm formation (Acs and Kallas, 2007).

In South Africa, this is particularly the case. Given the nature of the dual economy, it is argued that active intervention on the part of the government or private sector is necessary to enable small businesses to take advantage of opportunities available in the formal sector corporate environment (Kirsten and Rogerson, 2002).

Since 1994, the South African government has actively sought to support the growth of the small business sector by establishing a comprehensive framework of institutions and programmes. However, results thus far appear to have been poor (World Bank, 2007), although national and regional data on the small business economy is considered ~~appalling~~ weak (Rogerson, 2004).

Schlemmer and Hudson (2004) stressed four reasons for the underperformance of government programmes in stimulating entrepreneurship, including: confusion of purpose; misplaced emphasis on access to finance as the biggest obstacle to entrepreneurship; failure to adopt a holistic approach to enterprise support; and a concentration on state-driven delivery of services.

Entrepreneurs tend not to be aware of the full range of support available to them, and those who do complain that existing government support programmes are inaccessible and bureaucratic (World Bank 2007). Other studies report a high degree of scepticism about the extent to which resources used to operate these programmes are used effectively (Schlemmer and Hudson, 2004).

Corporate employers also play an important role in entrepreneurial development (Kirsten and Rogerson, 2002), firstly by actively seeking to do businesses with small enterprises and because the ranks of their own employees are likely to contain many nascent entrepreneurs (Audia and Rider, 2005). Organisations provide individuals with a host of skills, industry knowledge and relationships that they require to build self-efficacy and initiate a new business. Individuals collect

mastery experiences either by their own achievements or vicariously, by observing the efforts of others (Audia and Rider, 2005).

#### **2.6.4. *The industry environment***

Entrepreneurs look to the complexity, dynamism and munificence of the industry environment when evaluating opportunities (DeTienne, Shepherd and de Castro, 2004). Complexity refers to the number and heterogeneity of the factors that must be considered, while dynamism focuses on the amount of stability or instability in the environment and munificence refers to those characteristics favourable to the development of new enterprise (DeTienne *et al*, 2004).

A host of studies has focused on identifying the industries most conducive to the establishment of new ventures. Shane (2003) identifies five theoretical perspectives on industry-level differences, which highlight factors such as growth rate, profitability and fragmentation as being associated with incidence of new venture creation. Stage of industry evolution also influences the effectiveness of particular strategies. For example, Sandberg and Hofer (1987) found that new ventures are more successful in industries that are in the development or growth stages of evolution. High-growth industry environments have generally been found to provide a favourable environment for new ventures to achieve sales growth (McDougall *et al*, 1994).

This is not to suggest that the entrepreneur makes a deliberate, rational decision on the choice of industry in which he or she intends to operate. Rather, entrepreneurs are most likely to start business in sectors closely related to those in which they were previously employed (Shane, 2008). More specifically, it has been shown that high dissatisfaction with pre-entrepreneurial employment leads to venture creation in an unrelated field, whereas high satisfaction with pre-entrepreneurial employment leads to venture creation in a related field (Cliff *et al*, 2006).

#### **2.6.5. *Socio-cultural environment***

Socio-cultural factors are thought to play an important role in stimulating entrepreneurial potential (Stewart, Carland, Carland, Watson and Seo, 2003),

since they influence the social desirability of venture creation, foster appropriate values and increase the visibility of entrepreneurial role models (Krueger *et al*, 2000; Anderson and Miller, 2003).

For example, it has been suggested that in India, a network of cultural values exists which run counter to entrepreneurship (Dana, 2000). In particular, being passive and content with the status quo is believed to be healthier for the soul than striving to improve. Work, in and of itself, is not valued, with the result that people perform tasks only as a favour to their employers. More importantly, people are acculturated to believe in external locus of control, which tends to result in low self-efficacy and resulting low levels of entrepreneurial effort (Dana, 2000).

South Africa is thought to lack an entrepreneurial mindset, in that school leavers tend to focus on finding employment within the traditional economic system (Nasser, *et al*, 2003). As a consequence of decades of this kind of socialisation, entrepreneurial role models are few, which in itself acts as a barrier to entrepreneurship, since those who personally know an entrepreneur are four times more likely to start or run a new business than those who do not (Orford *et al*, 2004).

However, there has been much debate about whether particular cultural beliefs influence the incidence of entrepreneurship (Tiessen, 1997; Mueller and Thomas, 2000). In particular, the individualism-collectivism dimension (Hofstede, 1984) was thought to be associated with innovation and entrepreneurship. Some studies have found support for the argument that individualistic cultures foster entrepreneurial values such as self-reliance, while collectivist cultures do not (Mueller and Thomas, 2000). A study of entrepreneurial intention found that social norms do not have a role in predicting entrepreneurial intention, although this was thought to be important among ethnic groups that have strong traditions of entrepreneurship (Krueger *et al*, 2000).

In South Africa, there is evidence of at least two major sets of cultural values, with the black population being strongly associated with African values and the white population associating with Western, Anglo values (Ashkanasy, Trevor-Roberts and Earnshaw, 2002). However, it is notable that the South African white population reports higher scores for humane and uncertainty-avoiding values and

the highest power distance values in the Anglo cluster (Ashkanasy *et al*, 2002). A second set of evidence comes from the World Values Survey (2004), which demonstrates that the white population's value systems are strongly materialist in nature (Kotze and Lombard, 2002).

The prevailing black culture is predominantly collectivist in nature (Mangaliso, 2001). This is typified by *ubuntu* a philosophy of humaneness and community which pervades the value and behavioural system of a large majority of South Africans. The organising concept of the *ubuntu* system is interdependence, while the most significant norms are reciprocity, suppression of self-interest and the virtue of symbiosis (Mangaliso, 2001). The World Values Survey defines the values of the black population as predominantly pre-materialist, focused on meeting basic needs (Kotze and Lombard, 2002).

These values seem to be in direct conflict with those associated with entrepreneurship, at least Western developed-country notions of entrepreneurship, leading scholars to conclude that South Africa's culture does not support the development of an entrepreneurial orientation which incorporates constructs such as innovativeness, internal locus of control, risk-taking and individualism (Pretorius and van Vuuren, 2003).

However, the notion that individualist cultural values represent a pre-condition for high levels of entrepreneurial activity seems unsound, especially with respect to highly collectivist, intensely entrepreneurial Asian countries (Thiessen 1997). Studies of differences in risk-taking propensity and achievement orientation between cultures have similarly had mixed results (Stewart *et al*, 2003). Interestingly, Thiessen (1997) reports that Hofstede (1984) himself had come to believe that increases in economic wealth give rise to individualism, rather than the reverse being the case.

In an attempt to verify whether culture could indeed predict entrepreneurial activity, Hunt and Levie (2003) used a sample of 94 000 people in 37 countries, comparing data from the Global Entrepreneurship Monitor and the World Values Survey. They hypothesised that in the tradition of Western developed-country notions, higher rates of entrepreneurship would be associated with values of: high individualism, secular authority and masculinity, low power distance, uncertainty avoidance and well being. Instead, they found that population growth

was the only consistent predictor of entrepreneurial activity, and concluded that opportunity-driven entrepreneurship is not driven by cultural factors (Hunt and Levie, 2003).

Instead, there is some evidence of a basic set of beliefs that entrepreneurs across cultures hold about themselves and others in their society (McGrath and MacMillan, 1992), as well as a set of universal cognitions that entrepreneurs have in common (Mitchell, Brock, Smith, Morse, Seawright, Peredo and McKenzie, 2002a). It is argued that this universal culture of entrepreneurship functions in the same way as ethnocentrism, in that entrepreneurs are deviants, part of an outgroup in any particular society, but belong to a cohesive ingroup across societies. Within this group, members enjoy consensus about what constitutes membership and conform to particular norms of behaviour (McGrath and MacMillan, 1992).

The study conducted by McGrath and MacMillan (1992) found seven beliefs that entrepreneurs across cultures share, reflecting their sense of being different from their fellow human beings. The authors argue that these beliefs result in a number of common entrepreneurial beliefs and behaviours, including: the desire to be in control, to obtain resources independently and to take responsibility for everything; the tendency to question the status quo and to create organisations to fulfil their objectives; and the belief that others do not work hard enough and do not have the initiative to create competitive businesses (McGrath and MacMillan, 1992).

## **2.7. Models of new venture creation**

The literature review has up to this point focused on understanding the personal, social, business and environmental factors influencing entrepreneurs and the creation of new ventures. This section examines a series of models of new venture creation as a whole.

Models of entrepreneurship are helpful because they piece together disparate information from a wide range of disciplines in a way that is both integrative and theoretically parsimonious. At the same time, models focus attention on the fundamentals of the phenomenon and serve as a roadmap for future theory building and testing (Ma and Tan, 2006).

This section examines a sample of models of new venture creation developed on the basis of both variance theory and process theory.

### ***2.7.1. Models based on variance theory***

The classical scientific paradigm explains phenomena in terms of independent variables causing changes in a dependent variable, in other words to explain change as being driven by deterministic causation (Van de Ven and Engelman, 2004). Much of the entrepreneurship literature is based on this approach, with the majority of empirical studies being cross-sectional in nature (Chandler and Lyon, 2001).

Gartner's (1985) framework describes venture creation as a gestalt of variables from four dimensions, namely the individual, the process, the organisation and the environment. By individual, Gartner (1985) is referring mainly to personality characteristics such as a need for achievement, a locus of control and a risk-taking propensity as well as some demographic variables. The process dimension of the framework focuses on the behaviours undertaken by the individual in the course of venture creation, including locating a business opportunity, accumulating resources, marketing products and services, producing products, building an organisation and responding to society. The environmental dimension incorporates the macro-environment of regulatory and economic conditions and the industry environment of competitors, customers and suppliers. The organisation dimension refers to type of firm and generic strategy (Gartner, 1985). The main weakness of this framework is its failure to consider socio-cultural factors on entrepreneurial activity, at the individual, group or macro level.

Chrisman et al (1998) argue that new venture creation could usefully be considered from the perspective of strategic management theory, on the basis that the determinants of success are the same. The model involves five determinants of new venture survival and performance, namely the individual, industry structure, business strategy, resources and organisation structure, systems and processes. The focus is on the personality, skills, experience behaviours and values of the individual entrepreneur. Industry structure is made up of structural characteristics, industry rivalry and the nature of buyers and suppliers. Strategy variables include: planning and strategy formulation; goals

and objectives; strategic direction; entry strategy; competitive weapons; segmentation; scope; investment strategy and stakeholder strategy. Resource variables are either intangible or tangible assets, while organisation variables include structure, systems and processes and ownership. Macro-environmental factors are largely ignored, except as implicit drivers of industry structure and resource availability.

A framework devised by Korunka, Frank, Lueger and Mugler (2003) sets out to identify a series of entrepreneurial configurations based on the interrelated areas of entrepreneurs, resources, environment and organising activities. The start-up process is defined as beginning with the first actions of the nascent entrepreneur and ending with the first activities of the new venture. Individual characteristics included: personality, and personal resources such as human capital and personal finances. The environment dimension focuses on family characteristics, access to support, the presence of push factors networks and positive role models. The organisation dimension incorporates: perceptions of difficulty, use of information, consideration of failure and perceived difficulties. The authors conclude that the start-up process is highly heterogeneous and dependent on the context in which it takes place (Korunka *et al*, 2003). Although this appears to be a multi-level assessment, it views the entrepreneurial event entirely from the perspective of the individual.

Ma and Tan (2006) 4P framework is elegant in its simplicity, and likely to be particularly helpful in pedagogic applications. The first P, perspective, comprises the entrepreneurial mindset, his passion and personal commitment as well as his pattern or formula for success. The second P stands for pioneer and encapsulates the innovative and pioneering character of the entrepreneurial effort, as well as the entrepreneur's commitment to persevere against the odds. The third P, practice, refers to the activities and behaviours in which the entrepreneur engages, including the critical entrepreneurial skill of persuasion. The fourth P is performance, the result that the entrepreneur achieves, including profit and customer satisfaction.

The frameworks described in this section may have added significantly to the body of knowledge about venture creation, but they have been developed in the tradition of variance theory, providing explanations for the phenomenon of entrepreneurship in terms of relationships among dependent and independent

variables (Langley, 1999). New venture creation involves multiple activities that occur simultaneously and independently over time (Lichtenstein *et al*, 2006). This black box approach focuses on identifying the characteristics, resources and conditions that account for success, without considering the dynamics of the process (Woo *et al*, 1994).

### **2.7.2. Models based on process theory**

The new venture process may take weeks, months or even years to complete and involves many activities and decisions along the way (Shane and Venkataraman, 2000; Shaver and Scott, 1991). Entrepreneurs themselves often describe their occupation as a journey (Dodd, 2002; Bolton and Thompson, 2004), involving a complex non-linear process.

This suggests that process models might be helpful in the entrepreneurial domain. Process models represent a causal explanation of a sequence of events (Chiles, 2003) and seek to explain the myriad of interactions that give rise to social phenomena such as entrepreneurship, or its absence (Pentland, 1999; Langley, 1999; Chiles, 2003; Liao *et al*, 2005).

Bhave's (1994) integrative process model of venture creation is empirically based, and divided into three principal stages: an opportunity stage; a technology set-up and organisation-creation stage and an exchange stage. Each stage is separated by a natural transition point. The opportunity stage culminates in the decision to commit to physical creation; the technology set-up and organisation-creation stage involves resource gathering and culminates in a product that is ready for the customer. This allows the entrepreneur to cross the supply and demand boundary and make the first sale. Customers directly evaluate the product and provide feedback for adjustments to be made (Bhave, 1994).

The Timmons (1999) model is empirically derived, and entails the entrepreneur actively managing the dynamic balance between the opportunity, the team capable of capitalising on it and the resources required to exploit it. Timmons argues that each of these three core components differs in importance at different stages of the start-up process, and the entrepreneur's role is to constantly monitor and manage the quality of fit of each, and to strike a dynamic balance between the three.

Bolton and Thompson (2000) present a detailed model of enterprise development which incorporates the inputs, the process itself and the outputs of the process. The inputs comprise people and ideas, which come together at the time of a trigger event such as displacement, culture change, crisis or recognition of the opportunity itself. During the next getting ready stage, the entrepreneur begins to assess and train herself in readiness for start-up at the same time as researching and evaluating the probable opportunity. The start-up stage involves the entrepreneur bonding with the opportunity and undertaking more detailed evaluation, preparing a business plan, finding the required resources and completing the legal and procedural formalities. The enterprise then enters a building and growing stage, in which it passes through a number of phases, termed embryo, nurture, fledgling and take-off, as it develops into a viable and growing enterprise. The embryo stage ends with a working prototype, the nurture stage with the first saleable product or service, the fledgling stage with a viable product range and the take-off stage culminates in a recognised position in the market (Bolton and Thompson, 2000).

Shane's (2003) theory of entrepreneurship provides a comprehensive approach, conceived of as occurring in the nexus between the individual and the environment, each of which influences each step of the venture-creation process. The process itself comprises discovery of opportunity, the decision to exploit the opportunity, resource acquisition, development of entrepreneurial strategy and implementation of organising processes. The author notes that his approach is inhibited by conflicting goals, because what is central to the phenomenon of entrepreneurship is not always what is theoretically interesting and what is theoretically interesting is not always what has been the subject of empirical observation (Shane, 2003).

Vecchio's (2003) model defined the now-familiar three phases of formal start-up as pre-launch and launch, ongoing concern and exit, each associated with a series of actions on the part of the entrepreneur. Of particular interest is his attempt to link relevant micro-level and macro-level factors to each stage of the start-up process. For example, in pre-launch and launch stages, Vecchio (2003) suggests that the entrepreneur's demography, personality characteristics and social capital might be most influential, while at exit stage, family might be more influential.

In an innovative conceptualisation of the emergence of a new venture based on a longitudinal case study, Lichtenstein *et al* (2006) define three different modes of entrepreneurial organising, namely visioning, strategic organising and tactical organising. It was found that the new venture-creation process happens in ways contrary to the accepted wisdom. For example, behaviour precedes decision making and conceptual framing, while available resources are what frame the opportunity, rather than the reverse. The authors stress that these different modes do not develop sequentially, independently or incrementally, but rather change in system-wide, coordinated leaps (Lichtenstein *et al*, 2006). This is reinforced by a large cross-sectional study which found that development happened in spurts, rather than according to a meaningful set of co-occurring activities (Liao *et al*, 2005).

These models have a number of elements in common, in that they imply that the entrepreneur undertakes a series of activities during venture creation, including intention and motivation, opportunity identification, opportunity evaluation and risk assessment, resource assembly, strategy development, building organisation and surviving/thriving or failing. However, there is no agreement on where new venture creation begins and ends, there is an assumed, linear order of events which are presumed to additively create the new venture-creation outcome.

As a result, existing models of new venture creation may not accurately reflect the process as experienced by developing-country entrepreneurs themselves.

## **2.8. Implications of this review**

This review set out to understanding the new venture-creation process, and the personal, social, business and environmental factors that influence its initiation and development. This discussion considers the extent to which theory based on research from the developed world applies to entrepreneurs in South Africa, as well as considering six gaps in the literature as they apply to the exploration of new venture creation in South Africa.

Table 7, which appears on the following pages, summarises the literature covered in the review from the perspective of the findings directly relevant to the South African context.

**Table 7. Summary of Literature Review**

LEVEL OF ANALYSIS	DIMENSION	APPLICABILITY TO SOUTH AFRICAN ENVIRONMENT
<b>Personal</b>	Demographic characteristics	<ul style="list-style-type: none"> <li>- Differences in rates of entrepreneurship sharply divided on ethnic lines (Maas and Herrington, 2006)</li> <li>- No difference in rates of entrepreneurship (Maas and Herrington, 2006), entrepreneurial tendencies or personality characteristics between men and women</li> <li>- Business owners better educated (Maas and Herrington, 2006)</li> </ul>
	Motivation and intention	- Not known
	Work experience	- Little research relating to the role of work experience in entrepreneurial development (Sleuwagen and Goedhuys, 1998)
	Personality characteristics	<ul style="list-style-type: none"> <li>- Risk taking under-developed (Louw et al, 2003)</li> <li>- Positive relationship between entrepreneurial orientation and business performance (Krauss et al, 2005)</li> </ul>
	Cognitive style and cognitive bias	- Not known
	Entrepreneurial self-efficacy	- Individuals who believe they have the necessary skills are 7 times more likely to be entrepreneurial (Orford et al, 2004)
	The role of affect	- Not known
	Attitude to entrepreneurship	- Self-employed individuals have more positive self-esteem and attitudes toward innovation (Van Wyk and Boshoff, 2004)
	Behaviour during entrepreneurship	- Not known
	Entrepreneurial creativity	- Creativity and innovation lacking in entrepreneurial training (Pretorius et al, 2005)
	Intuition and learning	- Not known
Making sense of the experience	- Not known	
<b>Social</b>	Social psychology perspective	- Not known
	Family embeddedness	- Not known
	Network embeddedness	<ul style="list-style-type: none"> <li>- Religious affiliation may play a significant role (World Values Survey, 2004)</li> <li>- Prevailing cultural value of <i>ubuntu</i> may intensify social relationships (Mangaliso, 2001)</li> </ul>

**Table 7: Summary of Literature Review (continued)**

LEVEL OF ANALYSIS	DIMENSION	APPLICABILITY TO SOUTH AFRICAN ENVIRONMENT
<b>Business</b>	Discovery of opportunity	- Opportunities may be pervasive and broader in scope (Lingelbach et al, 2005)
	Risk and uncertainty	<ul style="list-style-type: none"> <li>- Entrepreneurs seem willing to take higher levels of personal risk (Morris and Zahra, 2000)</li> <li>- Entrepreneurs adopt a portfolio approach to managing risk (Lingelbach et al, 2005)</li> <li>- Most successful entrepreneurs operate more than one business successfully (Hudson et al, 2006)</li> </ul>
	Resource gathering	<ul style="list-style-type: none"> <li>- Entrepreneurs have far poorer accessibility to funding (Wynne and Lyne, 2003), which reduces expected growth rate (Sleuwagen and Goedhuys, 1998) and constrains expansion (Hudson et al, 2006)</li> <li>- Tend to finance ventures with their own savings (Sleuwagen and Goedhuys, 1998)</li> <li>- Personal characteristics of the entrepreneur may be particularly important to resource holder appraisals (Nieuwenhuizen and Kroon, 2003)</li> <li>- Access to information may be a key resource (Lingelbach et al, 2005)</li> </ul>
	Strategy process	<ul style="list-style-type: none"> <li>- Clear relationship between planning and success among low cognitive ability business owners (Escher et al, 2002)</li> <li>- The ability to achieve or maintain success will require adaptation of the business process over time (Morris and Zahra, 2000)</li> </ul>
	Strategy content	<ul style="list-style-type: none"> <li>- Typology of new venture strategies thought to be operant in developing countries (Park and Bae, 2004)</li> <li>- Entrepreneurs may be forced to begin businesses downstream and then vertically integrate backwards over time (Lingelbach et al, 2005)</li> </ul>
	Organisation building	- Not known
	New venture survival, success, growth	- Not known

**Table 7: Summary of Literature Review (continued)**

LEVEL OF ANALYSIS	DIMENSION	APPLICABILITY TO SOUTH AFRICAN ENVIRONMENT
<b>Macro-environment</b>	Regulatory environment	<ul style="list-style-type: none"> <li>- Developing country entrepreneurship distinctive in terms of the relationship between macro-environmental conditions and rates of entrepreneurship (Acs et al, 2004)</li> <li>- South Africa ranks 35<sup>th</sup> out of 178 countries on ease of doing business (World Bank, 2008)</li> </ul>
	Economic environment	<ul style="list-style-type: none"> <li>- Burden of tax compliance is heavy at 8.3% of turnover (Hudson, 2006)</li> <li>- Minimal interaction between sectors of the dual economy (Hudson, 2004)</li> <li>- Around 10% of informal sector businesses could be regarded as having the potential to graduate to the formal sector (Morris et al, 1996)</li> </ul>
	Institutional and support environment	<ul style="list-style-type: none"> <li>- Entrepreneurs in developing countries who start businesses without the requisite skills, education, financial capital and social contacts, usually fail (Acs and Kallas, 2007)</li> <li>- Lack of appropriate training the main reason for entrepreneurial failure (Ladzani and van Vuuren, 2002)</li> <li>- National and regional data on the small business economy is appallingly weak (Rogerson, 2004)</li> <li>- Entrepreneurs not aware of full range of support available to them (World Bank 2007)</li> <li>- Corporate employers play an important role in entrepreneurial development (Kirsten and Rogerson, 2004)</li> </ul>
	Industry environment	<ul style="list-style-type: none"> <li>- Not known</li> </ul>
	Socio-cultural environment	<ul style="list-style-type: none"> <li>- South Africa thought to lack an entrepreneurial mindset (Nasser et al, 2003)</li> <li>- Lack of appropriate role models acts as a barrier to entrepreneurship (Orford et al, 2004)</li> <li>- Culture does not support the development of an entrepreneurial orientation (Pretorius and van Vuuren, 2003)</li> </ul>

The preceding tables suggest that prior research on entrepreneurship in South Africa seems to be fairly heavily focused on the business and environmental levels of analysis, with relatively weak emphasis on the individual and social levels of analysis.

At the macro-environmental level of analysis, useful studies regarding the regulatory, economic and socio-cultural environment have been conducted. Although the role of the macro-environment in stimulating entrepreneurship is a matter of some debate in the literature, it is worth noting that contemporary South African conditions are not generally that unfavourable. The regulatory environment is relatively unobstructed, the economic environment has been stable and the support environment is in place, albeit not operating as effectively as it might. Although socio-cultural factors were previously considered disadvantageous to entrepreneurial endeavour, this link has yet to be conclusively empirically validated.

Similarly, the business level of analysis has received good coverage, especially from the perspective of perceived risk, resource gathering and strategy process and content. Although the ability to recognise opportunities may be sparsely distributed in an uneducated and experience-poor population such as South Africa, the opportunities themselves might be more pervasive and broader in scope than is true of more developed economies. In addition, the nature of the risks that entrepreneurs in developing countries face might be different, and perceived differently from those facing developed-country entrepreneurs. This might lead to different modes of new venture start-up, different modes of strategy making and different approaches to resource gathering.

The social level of analysis is less well-explored in South Africa. Research into the family and social context of entrepreneurship reveals that it influences the phenomenon in several significant ways. Firstly, social factors influence the perceived desirability and feasibility of new venture creation. Secondly, they may determine which opportunities are identified and exploited by the entrepreneur. Thirdly, they directly influence the likely success or failure of the entrepreneur by facilitating the flow of information and resources to the new venture. In the absence of empirical evidence to the contrary, this candidate hypothesises, that given our social-cultural context, social factors might prove to be significant to South African entrepreneurship.

In addition, the literature in general is characterized by six key features which inhibit its explanatory power with respect to the way in which entrepreneurial development can best be understood in South Africa.

Firstly, there is no common definition of what constitutes entrepreneurship, which makes it difficult for scholars to build on each others work and almost impossible to compare and contrast different empirical studies (Brazeal and Herbert, 1999). This is particularly problematic in the South African context, as the population is characterised by wide diversity in demographic and socio-economic groupings, factors which appear to influence the desirability and feasibility of entrepreneurial endeavour. Studies which fail to adequately specify the subject of the research are virtually useless in this context.

Secondly, the literature tends to treat all entrepreneurs as if they were an homogenous group. The personality characteristics stream of research has not generally been conclusive in understanding the entrepreneurial drive, in part because by seeking to understand why entrepreneurs are different from non-entrepreneurs, it implicitly assumes that all entrepreneurs are the same. Although more recent work describing different types of entrepreneurial personality holds some promise. Research that treats entrepreneurs as a heterogeneous, rather than homogenous group will focus attention on the factors that might draw different kinds of people to new venture creation.

Similarly, scholars of the cognitive processes of entrepreneurs have been helpful in enhancing understanding of how decisions to pursue opportunities are made and why one individual will persist in new venture creation while another will not. The way individuals make attributions about success or failure, mediated by cultural norms, seems to influence self-efficacy, which in turn appears to be strongly associated with entrepreneurial propensity. However, scholars of this approach have also tended to treat all entrepreneurs as cognitively homogenous, rather than seeking to understand the dimensions of entrepreneurial variation. Given the diversity of the South African population and the wide range of contexts in which they operate, this approach seems overly simplistic.

Thirdly, as discussed in more detail in Chapter 3.1, , the literature tends to ignore the entrepreneurs point of view. Many of the conceptual frameworks used in entrepreneurial research are developed *a priori*, on the basis of informal observation,

conjecture or prior theoretical arguments, which may not consider the lived experience of venture creation as perceived by entrepreneurs themselves (Kets de Vries, 1996). Indeed, recent studies found systematic differences between experts in the field of entrepreneurship and entrepreneurs themselves on their attributions of the factors that cause and impede small business (Rogoff *et al*, 2004; Verheul *et al*, 2005).

Fourth, the literature tends to focus on a single level of analysis, and fails to take an holistic view of the entrepreneurial experience. In particular, examination of the individual-focused entrepreneurial research suggests that this stream cannot in isolation adequately explain venture creation in a developing country such as South Africa. This is particularly the case given the turbulent socio-economic conditions that have historically constrained entrepreneurial activity by increasing the perceived risk and lowering the perceived rewards of new venture creation. Research which synthesises multiple levels of analysis is likely to give greater insights into how best to enhance the desirability and feasibility of entrepreneurial endeavour in South Africa.

Fifth, the literature concerning models of new venture creation generally assumes a preferred, sequential order of events, and treats different stages of the process as equally important. Much of the research in the entrepreneurship domain appears to assume that the decision to start a new venture is a relatively simple yes/no decision on the part of a special, heroic individual (Mitchell, 1997). Once the decision has been taken, the entrepreneur embarks on a series of activities and events, beginning with opportunity identification and ending with start-up, that together add up to new venture creation (Liao *et al*, 2005).

However, many process models of entrepreneurship fail to capture the complexity of the entrepreneurial process, at the same time as treating all entrepreneurs and all ventures as if they were homogenous and ignoring the links between context and the critical elements of new venture creation (Bhave, 1994). In their emphasis on the succession of events, existing models have a tendency to ignore that some causal forces operate continuously, while others influence the sequence only at particular points in time (Van de Ven and Engelman, 2004). Further, although scholars have long acknowledged the multi-level quality of new venture creation, there have been few attempts to integrate or to connect with process (Lichtenstein *et al*, 2006).

Finally, the literature implicitly assumes that there is no difference between the developed and the developing world with respect to new venture creation and the entrepreneurial experience. One example is that demographic characteristics seem increasingly able to predict the incidence of entrepreneurship, at least in the developed world. However, factors such as gender, education and family economic status appear to have a somewhat different influence on entrepreneurial propensity in the developing world, and in South Africa particularly.

Theories of entrepreneurial intention and the role of work experience may also differ in their application, given relatively low levels of education and high levels of unemployment in South Africa. In addition, during the new venture-creation process, it seems likely that attitudes and behaviours of South African entrepreneurs differ from those of their developed-world counterparts, given that South African entrepreneurs are responding to a different set of environmental stimuli.

Support programmes for a developing country like South Africa may fall short of their goals when they are based on an understanding of entrepreneurial propensity that is firmly of the developed world.

The South African environment is such that an exploration of venture creation must consider a complex web of interacting historical, economic, organisational, social and personal factors, that cannot easily be explained by *a priori* theories that are largely based on data from the Western developed world rather than the developing world.

A deeper understanding of the venture-creation process from the perspective of the entrepreneurs themselves is therefore expected to prove helpful in the development and implementation of policies and programmes to encourage and support much-needed entrepreneurial activity in South Africa. This suggests that a study which seeks to build a grounded theory of the venture-creation process in South Africa might have much to add to the body of entrepreneurship literature.

## **CHAPTER 3. RESEARCH DESIGN AND METHODOLOGY**

This chapter examines methodological issues in the existing body of research, describes the research design, specifies the basis on which cases were selected and documents the data-collection and analysis processes followed during the course of the study. Finally, anticipated shortcomings, limitations and sources of error are highlighted.

### **3.1. Methodological issues in the literature**

Although entrepreneurial research is beginning to emerge as a relatively distinctive field, its roots in economics and psychology streams are on parallel rather than convergent paths (Vecchio, 2003). Endogenous explanations of entrepreneurship tend to assume that the entrepreneur accounts for a substantial part of the success of new ventures, possibly exaggerating the entrepreneur's role (Bouchiki, 1993). On the other hand, exogenous explanations that attribute the most important source of success or failure to environmental determinism underestimate the individual's role in the entrepreneurial process (Bouchiki, 1993).

Perhaps as a consequence of this fundamental conflict, the entrepreneurship domain is characterised by a lack of consensus about an appropriate definition of the unit of analysis, the nature and operationalisation of the variables to be studied, or the way data should be collected and analysed (Brazeal and Herbert, 1999).

Entrepreneurial research is subject to a host of conceptual and methodological problems, as articulated by a recent series of literature reviews (Chandler and Lyon 2001; Ratnatunga and Romano, 1997). Prior research is said to have emphasised deductive theory building (Lowe, 1995), rather than inductive theory development or theory testing (Ratnatunga and Romano, 1997). The dominant approach in entrepreneurial research is outcome-driven, based on cross-sectional variance methods, rather than event-driven process methods (Van de Ven and Engelman, 2004). Gartner

(1985) reminds us that the researchers appear to disdain the slow methodological process of description, which is at the heart of good scientific research in any domain.

Existing methods are thought to be inadequate for exploring and understanding the entrepreneurial phenomenon because it is idiosyncratic, characterised by reciprocal causality, complex sequences and non-linear relationships (Howorth, et al, 2005). Research design tends to focus on a single level of analysis, with very few studies taking account of more than one level or considering the interaction between different levels (Davidsson and Wiklund, 2001), even though it has been noted that the best research covers more than one level of analysis and explicitly looks at the relationships between them (Low and MacMillan, 1988).

Entrepreneurship studies have also been criticised for an emphasis on student samples (Vecchio, 2003) or comparing entrepreneurs with managers, without specifying any theoretical rationale for doing so (Markman *et al*, 2002). Other reviewers note that some studies suffer from bias of over-selecting successful entrepreneurs (Markman *et al*, 2002), creating a mythical status for the entrepreneur, which inhibits scholars' ability to explain entrepreneurial behaviour effectively (Mitchell, 1997). The literature has tended to treat all entrepreneurs as a homogenous group, focusing on what makes them different from non-entrepreneurs, rather than seeking to understand the key parameters of entrepreneurial variation (Sarasvathy, 2003).

The literature has suffered from a lack of methodological variety (Ogbor, 2000; Gartner and Birley, 2002; Hindle, 2004), specifically with regard to the lack of qualitative studies . only 18% of the studies conducted in the ten years ending 2001 used qualitative methods (Chandler and Lyon, 2001). The neglect of qualitative methods has occurred even though this type of research is likely to offer greatest promise for understanding entrepreneurial thinking and behaviour (Gartner and Birley, 2002).

Although quantitative studies dominate the entrepreneurship literature, most empirical studies have run the risk of common method variance because of using single-source data (Chandler and Lyon, 2001). Moreover, analytical techniques are relatively unsophisticated . fewer than 1% of studies conducted between 1990 and 2001 used structural equation modelling, for example (Hindle 2004). The use of multiple frameworks

for analysis avoids premature or false conclusions as a result of the researcher's inherent cognitive bias (Singh, Corner and Pavlovich, 2007).

Many of the conceptual frameworks used in entrepreneurial research are developed *a priori*, on the basis of informal observation, conjecture or prior theoretical arguments, which may not take into account the lived experience of venture creation as it is perceived by entrepreneurs themselves. A large body of the literature and research on entrepreneurship is said to have detached itself and its analysis from intimate collaboration between facts and theory (Ogbor, 2000). Indeed, a recent study found systematic differences between experts in the field of entrepreneurship and entrepreneurs themselves regarding their attributions of the factors that cause and impede small business (Rogoff *et al.*, 2004).

More importantly, perhaps, is that the bulk of the existing literature focuses on researching entrepreneurship in the developed world (Park and Bae, 2004), where individual and environmental characteristics, as well as the interaction between the two, might differ sharply from those in the developing world. In particular, mainstream theory is firmly rooted in a heroic myth that implicitly defines the entrepreneur as a white, male, North American individualist (Ogbor, 2000).

The application of new techniques to existing questions usually signals the beginning of methodological expansion (Hindle, 2004), which may be behind reviewers' pleas for more explicit treatment of foundational-related areas of enquiry which consciously and deliberately build on previous research streams (Brazeal and Herbert 1999).

### **3.2. Research design**

Recently, there have been calls for a focus on detailed analysis of the venture-creation process (Davidsson and Wiklund, 2001); from the entrepreneur's point of view (Sarasvathy, 2003), at multiple levels of analysis (Low and MacMillan, 1988), and making greater use of qualitative methodologies (Chandler and Lyon, 2001). This, together with the rationale for the study outlined and the nature of the research problem specified in Chapter 1, dictates the need to approach the study from the perspective of the idiographic philosophical tradition.

### ***3.2.1. Underlying philosophical and theoretical tradition***

Much of the methodological criticism of entrepreneurial research may be a consequence of its basis in the nomothetic, as opposed to the idiographic, philosophical tradition. These terms were defined by Wilhelm Windelband, a Kantian philosopher, to describe two different approaches to the acquisition of knowledge (Mouton and Marais, 1988). Most often expressed in the natural sciences, the nomothetic tendency is to generalise, in an effort to explain objective phenomena (Mir and Watson, 2000). The idiographic tendency is to describe the unique and specific to understand more subjective phenomena.

Nomothetic approaches seek to establish universal laws that are exhaustive and defensible using methods from the neo-positivist, quantitative research paradigm. Much management theory and research methodology explicitly or implicitly operates from the neo-positivist perspective (Nodoushni, 2000), in which theory building can be deductive, being derived from logical argument, or inductive, based on empirical evidence from a representative sample of cases.

Idiographic approaches to theory building use analytic induction, as defined by Florian Znaniecki (Ratcliff, 1994). Rather than seeking to define exhaustive and generalisable laws, the idiographic paradigm focuses on themes and typologies and their constituent sub-categories. Constant comparison between the definition of the broader category and the particular instance of the phenomenon stimulates continuous revision and confirmation (Ratcliff, 1994). The idiographic tradition is strongly qualitative in method, describing and explaining specific instances of a phenomenon from the perspective of multiple, subjective realities. The researcher's role is to understand these realities as deeply as possible (Hussey and Hussey, 1997).

Qualitative methods are characterised by: the need to understand the phenomenon in its natural setting, from an insider's perspective; the necessity of taking each unique context into account; and flexible, in-depth data-collection methods (Hussey and Hussey, 1997). The researcher is seeking to experience phenomena first-hand, and to immerse herself in the data-collection process. During analysis, the emphasis

is on grounded theory and inductive reasoning (Babbie and Mouton, 2003), as understanding emerges through unfolding events and mounting evidence.

The study is also heavily influenced by process theory, in that it focuses on recounting the story of how new venture creation occurred for the cases involved (Chiles, 2003). This is considered appropriate given that entrepreneurship is often event-based, occurs at multiple levels of analysis and is characterised by ambiguous boundaries between the personal, social and business domains (Langley, 1999). A process perspective is also thought to be particularly helpful in capturing the dynamics of venture creation and in generating new insights into the significance of different dimensions of the phenomenon (Woo *et al*, 1994).

### **3.2.2. Design of the study**

The research design assumes that the venture-creation process is different for each entrepreneur who experiences it, that there are multiple, subjective realities, and that the researcher's role is to understand these realities as deeply as possible (Hussey and Hussey, 1997). The intention is to move beyond the surface description of the venture-creation process, and to achieve an understanding of its deep structure (Pentland, 1999), to explain and interpret different elements of the process, its causes, procedures and consequences.

An empirical study using primary data in a case-study design has been conducted. The case-study design is characterised by a focus on the dynamics of a single setting (Eisenhardt, 1989), and on understanding a contemporary phenomenon in its real life context (Yin, 1981). It is anticipated that the case-study design will overcome the common problem in the existing literature of the entrepreneur being detached from her physical, social and political context (Verschuren, 2003). The rich detail which characterises the case study is expected to develop insights that have resonance with other social sites (Macpherson, Brooker and Ainsworth, 2000), thus enabling the exploration of theoretical connections.

Multiple cases are examined during the conduct of the study, and rigorous methods are employed during the analytical process (Eisenhardt, 1989; Langley, 1999).

Analysis of multiple cases assists in the theory-creation process because it permits replication and extension. Replication allows for independent corroboration of specific propositions using individual cases, while extension refers to the ability to develop more complete theory using the complementary aspects of a phenomenon that different cases represent (Eisenhardt, 1991). Multiple cases are also believed to enrich theory building because they provide for cross-case analysis (Perry, 1998).

For each case, two interviews are conducted with the core respondent and one each with a work colleague and family member. The purpose of this interview structure is to allow different perspectives of a single entrepreneurial experience in a multiple-relationship context to emerge (Pentland, 1999). These different perspectives are discernible between the personal and business domains of the entrepreneur, between the different individuals involved in a single case, as well as between cases (McCarthy, Holland and Gillies, 2003). Examination of differences and similarities between the interviews enriches the accounts of entrepreneurship and highlights the importance of understanding the different narratives associated with new venture creation (Steier, 2003).

The initial output of the investigation is a series of thick descriptions of individual entrepreneurs engaged in the start-up process, as presented in the narrative summaries in Chapters 4-11. The notion of thick description incorporates the achievement of multiple perspectives of multiple systems, using multiple methods and sources of evidence (Babbie and Mouton, 2003). Such detailed descriptions help the researcher to become more familiar with the data and allow the unique pattern of each case to emerge (Eisenhardt, 1989). This narrative strategy for making sense of the raw data is not, however, considered adequate for the development of explicit theoretical interpretation (Langley, 1999; Pentland, 1999).

The narrative summaries are therefore followed by within-case analysis using frameworks from the literature and newly developed analytic frameworks that simultaneously focus attention on the specifics of the case and make later comparison possible. Cross-case analysis is enabled by analytic induction (Ratcliff, 1994) and comparison with the literature (Eisenhardt, 1989) in the tradition of grounded theory development. The final product is a conceptual framework of new

venture creation and its sub-processes, which more closely mirrors the reality of entrepreneurial experience.

The strengths of this research design relate to understanding the phenomenon in its natural setting, from an insider's perspective. Each unique context is fully taken into account using flexible, in-depth data-collection methods capable of taking unanticipated factors into account (Babbie and Mouton, 2003). The use of case studies to build theory is considered advantageous to the development of novel theory that is valid and testable, and particularly relevant to situations in which current perspectives are inadequate or conflicting (Eisenhardt, 1989).

### **3.2.3. Ethical considerations**

In designing the study, attention is paid to ensuring that respondents are dealt with in a professional and ethical manner.

Full and complete disclosure of the purpose of the study is made to each potential respondent, to ensure that each participates on the basis of informed consent (Silverman, 2005). The purpose of the study is discussed telephonically with the potential respondent, confirmed by email (see Appendix B) and reiterated at the start of the interview.

In each case, a confidentiality agreement was signed by respondents, a copy of which may be found in Appendix C. Each transcript was edited and made anonymous by changing all names of people and businesses and removing any details which might enable respondents to be identified. Respondents were also asked to sign off on the accuracy of each transcript. In this way, the anonymity of respondents has been protected, and potential harm minimised (Babbie and Mouton, 2003).

Although the interviews often dealt with emotionally demanding issues, the researcher was prepared for these and able to employ appropriate techniques for managing the emotional tone of the discussions to ensure the respondent was informed and at ease, as described in 3.4.2. of this document.

### 3.3. Case selection

The research population for this study is delimited by a focus on entrepreneurs in urban South Africa who are currently or were recently engaged in venture creation for opportunity-based, rather than necessity or survivalist, enterprises (Eisenhardt, 1989). The emphasis on opportunity entrepreneurs reflects their disproportionate importance to job creation and economic growth (Nicholls-Nixon, 2005; Audia and Rider, 2005). The focus on urban entrepreneurs again reflects their relative importance, in that there are significantly higher levels of opportunity entrepreneurs in urban Gauteng, at 44.1% of all entrepreneurs, as opposed to rural Eastern Cape and North West provinces, at 5.4% and 4.3% respectively (Maas and Herrington, 2006).

While a focus on opportunity, rather than necessity entrepreneurs and urban, rather than rural entrepreneurs may be considered to impose limitations on the research results, it is argued that given the differences between the groups, such a focus actually enhances validity (Silverman, 2002) in a way that is not necessarily characteristic of much entrepreneurship research.

A theoretical sampling technique is applied to case selection, thereby ensuring the generalisability of cases to theoretical propositions rather than to populations (Anderson and Miller, 2003; Eisenhardt, 1989). Cases are selected purposively, on the grounds that a particular case illustrates some feature considered to be of interest (Seawright and Gerring, 2005; Silverman, 2005).

Cases are selected to maximise the differences in comparative groups (Patton, 2002) to bring out the widest possible variation in configurations of individual, group, organisation and industry (Korunka *et al*, 2003). This includes taking account of the demographic profiles (age, gender, ethnicity and educational achievements), personal strengths, and industry, for example, which the literature has demonstrated to be associated with entrepreneurial activity (Djankov *et al*, 2008).

Table 8 provides a brief overview of cases selected for the study:

**Table 8. Personal and business characteristics of selected cases**

No	Name	Age	Gender	Ethnicity	Education	Personal strength	Business stage	Industry	Key business issue
1	Ahmed	Mid	Male	Indian	Technical diplomas	Deal-making	Growth	IT services	Funding for growth and employee retention
2	Andile	Young	Male	Black	Bachelor's degree	Focus	Start-up	Fashion and retail	Launch business in competitive industry with small budget
3	Byron	Mid	Male	Black	Master's degree	Determination	Struggling	Business services	Close large-scale sales and fund short-term cash flow needs
4	Hans	Mid	Male	White	Matric	Energy	Emerging	Agriculture	Managing human and financial resources for growth
5	Margaret	Mid	Female	Black	Master's degree	Expertise	Start-up	Business services	Access to major clients, attracting skills for growth
6	Johan	Older	Male	White	Master's degree	Innovation	Emerging	Business services	Competitor barriers to entry, shareholder impatience
7	Andre	Older	Male	Coloured	Bachelor's degree	Competitiveness	Start-up	Software	Funding for rapid, large-scale product commercialisation
8	Kenneth	Young	Male	Black	Matric	Relationships	Emerging	Business services	Growth in customer base and offering

Table 8 details the main reason why the initial case and each subsequent case was selected to contrast with the preceding case, illustrating the process of purposive sampling to ensure maximum variation.

**Table 9. Rationale for selection of each case**

Case	Reason for selection
1 Ahmed	Mature, successful entrepreneur in well-established business
2 Andile	Young, employed individual engaged in lengthy start-up process
3 Byron	Mature entrepreneur, business failing, determined to continue
4 Hans	Mature entrepreneur, business emerging, several prior failures
5 Margaret	Female entrepreneur, left successful career, in early stage start-up
6 Johan	Older serial entrepreneur facing stakeholder barriers to growth
7 Andre	Older serial entrepreneur looking for funding to launch
8 Kenneth	Young entrepreneur, successful start-up serendipitous, unplanned

Entrepreneurs are selected to represent different stages of the venture-creation process, with the intention of minimising some of the problems associated with retrospective interviewing (Thompson, 2004b). The more developed the business, the further away in time the entrepreneur is from the actual act of creation, and could therefore be expected to have reinterpreted events to suit his self-image (Steier, 2003). In addition, deviant cases such as an entrepreneur from a failing business and a serial entrepreneur are actively pursued to test theory as it evolves (Silverman, 2005).

Access to respondents was facilitated by their membership of Enablis, a broad-based entrepreneur development non-government organisation originating in Canada and operating in South Africa and Kenya. The organisation adopts a membership based approach to empowering individual entrepreneurs by offering financial and non-financial support and networking opportunities<sup>6</sup>. Although potential members are required to undergo a formal application and acceptance process, this is aimed at ensuring that they are authentic opportunity-based entrepreneurs who are committed to the new venture creation process, rather than seeking to identify particular types of individual or business, potentially making the membership base representative of the opportunity-entrepreneurial population.

The selection of respondents from the Enablis membership base may increase the risk of bias, however it facilitates access to respondents and ensures that all cases

<sup>6</sup> Enablis Annual Report 2008, downloaded from [www.enablis.org](http://www.enablis.org) on 10 October 2008

have access to the same levels of support. The researcher was clearly identified as such and this additional credibility helped the core respondents to be open and honest about their entrepreneurial experience. All respondents approached agreed to participate in the study on the grounds that their participation might be helpful to other entrepreneurs, and to themselves should it result in enhanced public awareness of and support for the entrepreneurial process.

### 3.4. Data collection

Two semi-structured depth interviews, each of 1-2 hours duration, are conducted with each core respondent. These interviews focus on understanding the quality of the new venture-creation process from the respondent's point of view, as well as exploring the major influences, both personal and contextual, on the entrepreneur's subjective experience. In addition, interviews are conducted with one work colleague and one family member of each core respondent. These non-core interviews assist in creating a multi-dimensional view of the new venture process as experienced by the individual entrepreneur. The data-collection process is illustrated in figure 1.

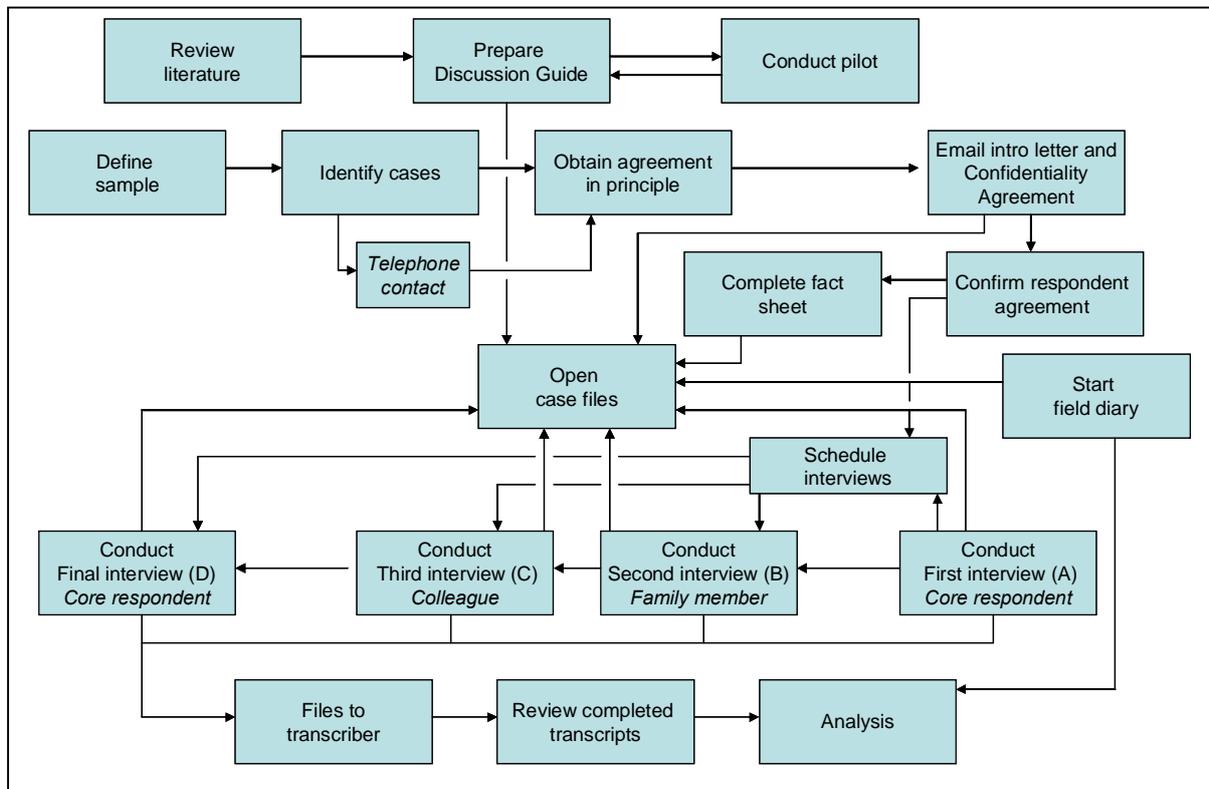


Figure 1. Data collection process

### **3.4.1. *Development of data-collection instruments***

During the interview, the interviewer uses a prepared discussion guide, to ensure stimulus equivalence across all cases (Hussey *et al*, 1997), and making comparison across cases possible (Bennett and George, 1997). Semi-structured depth interviews are aimed at eliciting respondents' ways of thinking about the issues involved (Bryman, 1989).

Business-focused and personal-focused discussion guides were developed for interviews with the core respondent, and a combined business/personal discussion guide was developed for use during the colleague and family member interviews (see Appendix D). Each discussion guide is based on a preliminary review of the literature, in that it sought to capture personal, social, business and macro-environmental influences on the entrepreneur, as well as seeking to understand the venture-creation process in detail (Bennett and George, 1997).

However, since the exact nature of the information that might become relevant to a case study is not readily predictable (Yin, 2003), the discussion guides serve as a checklist of topics that can ideally be covered in each interview, rather than stimulating a question-and-answer style of interaction. Rather than asking direct questions, the researcher uses declarative and reflective statements, invitations to elaborate and deliberate silences to maximise the opportunity for respondents to answer in their own way (Dana, Dana, Kelsay, Thomas and Tippins, 2003).

The discussion guides were assessed and revised following a pilot interview.

### **3.4.2. *Interviewing techniques***

The first interview with the case subject focuses on understanding the individual's business concept and new venture experience, while the second interview concentrates on the individual's personal history, experience and characteristics. The researcher specifically probes for intellectual and emotional connections between the respondent's life and work, thus allowing him or her to reconstruct their life history in terms of their entrepreneurial development (Seidman, 1998).

Questions are open-ended and allowed the respondent considerable latitude on content and style of the discussion (Weiss, 1997) to encourage an authentic, reflective response on the part of the entrepreneur (Seidman, 1998). The interviewer concentrates on capturing the entrepreneur's story rather than capturing answers to specific questions (Thompson, 2004). Interviews generally take the form of guided conversations, in that conversational flow is smooth and natural, a limited number of issues are covered in-depth, initially broadly and then with greater specificity. Respondents are encouraged to tell their story and to express their feelings about their experiences (Rubin and Rubin, 1995).

Two difficulties are encountered during the interview process. Firstly, the discussions are often highly emotionally charged, as a consequence of the intensity of the experiences being recounted, making it necessary for the candidate to manage the emotional tone of the conversation while simultaneously asking difficult questions (Rubin and Rubin, 1995). Since this was anticipated, the researcher uses a number of interviewing techniques for achieving this end, including: moving the conversation from emotion back to fact (Rubin and Rubin, 1995); and pacing the discussion to allow topics to emerge gradually (Hubbard, Backett-Milburn and Kemmer, 2001). In some instances, after the interview is completed, the candidate conducts a debrief with the respondent and offers appropriate and relevant referrals (Hubbard *et al*, 2001), taking care not to allow the discussion to become therapeutic in nature (Birch and Miller, 2000).

Secondly, in almost every case, the respondent is of a different gender, age and/or ethnic group to the researcher. Some theorists argue that this difference makes establishing rapport difficult and may affect the nature and quality of the information revealed (Fawcett and Hearn, 2004; Carter, 2004). Again, the researcher anticipated the problem and ensured that interviews are conducted in the respondent's home or office (Carter, 2004). At the outset, the researcher makes an effort to establish empathy with the respondent to encourage openness and honesty by identifying the respondent as the knowledgeable expert on the topic and by referring to the researcher's own similar experiences as an entrepreneur (Rubin and Rubin, 1995).

### **3.4.3. *Fieldwork procedures and practices***

Once cases are identified, basic data about the individual and his or her business is collected, mainly from information published on the internet, and captured on a respondent fact sheet (see Appendix D).

Each core respondent is contacted telephonically by the candidate to request participation in the study. Having obtained agreement in principle, the researcher sends an email to the respondent providing more detail about what participation would entail and attaching a draft confidentiality agreement (see Appendix C). The researcher confirms participation telephonically or by email, and sets up a case file, which in effect represents a database for each case studied (Yin, 2003).

At the end of the first interview, the core respondent is asked to contact a colleague and a family member for permission to be approached by the researcher. After the colleague and family member have agreed to participate in the study, the core respondent supplies contact details to the researcher, who then approaches them telephonically and by email to schedule the interviews. Following completion of the colleague and family member interviews, a final interview is conducted with the core respondent.

Interviews are spaced at least four days apart to allow the researcher to reflect on the preceding interview and to adapt subsequent interviews as appropriate (Seidman, 1998). This sequence also allowed the candidate to follow up on any issues raised in earlier interviews during the final interview with the core respondent.

All interviews are tape-recorded. The recordings are transcribed by professional transcribers according to a brief provided by the researcher (see Appendix F). Once transcripts are returned to the candidate, they are checked against original recordings to ensure accuracy.

In addition, the candidate keeps detailed field notes, in the form of a stream of consciousness commentary of what was being experienced and observed throughout the research project (Patton, 2002; Eisenhardt, 1989). These field notes allowed the candidate to constantly review her perceptions of what was

emerging, thereby beginning the process of identifying patterns and underlying themes in the data (Wolcott, 2005).

The transcripts, together with the candidates' field notes, formed the main source of raw data for the data analysis. Complete copies of the transcripts of each interview may be found in Appendix G. In the text of the report, quotations are referenced as follows, for reference 6B YBME 9:309, for example:

<b>6</b>	<b>B</b>	<b>YBME</b>	<b>9</b>	<b>309</b>
Case number	Respondent	Case descriptor	Transcript page number	Transcript line number

Appendix A provides a list of each interview conducted, including case number,, respondent and case descriptor.

### **3.5. Data analysis**

Analysis of the interview data is conducted in the tradition of grounded theory (Strauss and Corbin, 1998). This approach involves continuous interaction between the data and evolving theoretical notions (Eisenhardt, 1989; Bryman, 1989).

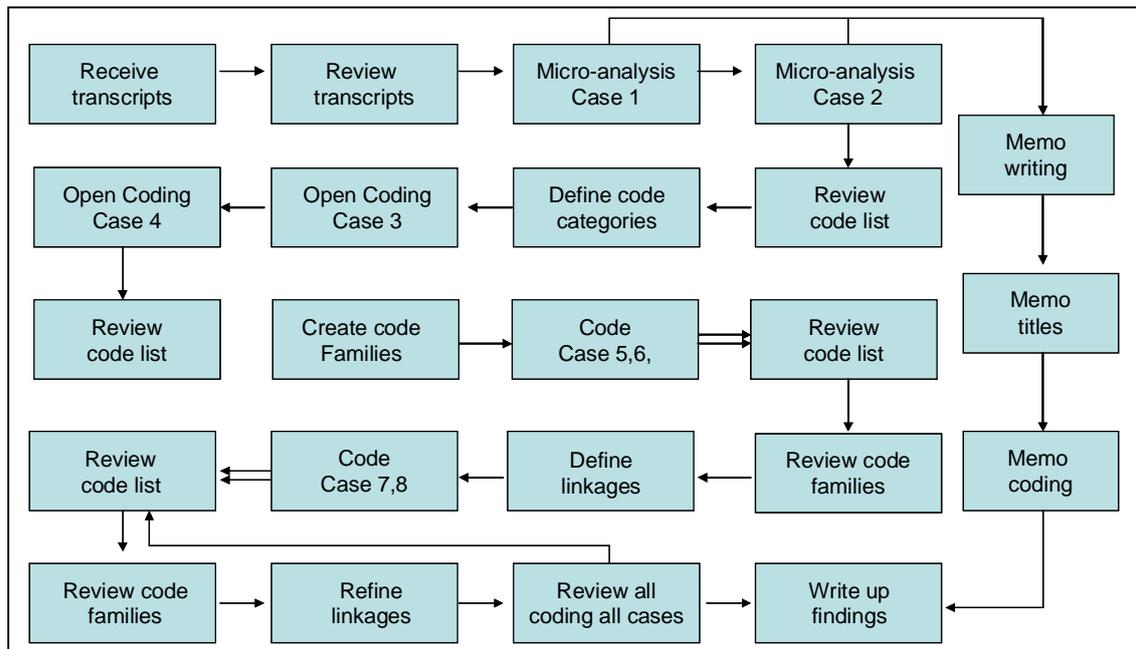
A five-step process is undertaken. First, the transcripts are coded to facilitate analysis of a mass of qualitative data . about 800 pages of transcribed text underwent the coding process. Next, using the coded data, detailed narrative summaries of each case are prepared. Within-case analysis is then conducted, using a number of analytic frameworks drawn from the literature or developed specifically for the study (Miles and Huberman, 1994). Themes are then shaped and the literature *unfolded* by comparing themes with the existing literature (Eisenhardt, 1989). Finally a chain of evidence is constructed, which verifies the conceptualisation and takes account of countervailing evidence (Miles and Huberman, 1994).

#### ***3.5.1. Coding transcripts***

The interview transcripts are coded using Atlas/ti, a qualitative data analysis software programme, to: help automate and accelerate the coding process; provide a more formal way of examining the data; assist in the search for complex relationships; and improve the quality of the output (Roberts and Wilson, 2002). Atlas/ti was selected because it is: easier to learn; good for relatively

simple projects; unlimited in terms of the units of coding provided for (Barry, 1998).

The coding process is illustrated in Figure 2.



**Figure 2. Coding procedure**

The coding of the first two cases is conducted via a line-by-line microanalysis of the data (Strauss and Corbin, 1998). This involves close examination of what the interviewees are saying and how they are saying it, in order to understand their interpretation of reality (Strauss and Corbin, 1998). The purpose of this kind of detailed analysis is to discover categories (or codes) and label them correctly.

During coding, particular care is taken to ground the coding scheme in the data to avoid creating a distance between the researcher and the data (Bong, 2002). Strong reflection and memo writing occurs throughout the process and each quotation highlights sufficient text to ensure that meaning is not lost (Bong, 2002). Copies of the codes and associated quotations appear in Appendix I.

The list of codes from the first two cases (four transcripts each) is then reviewed to sort the code list into groups or higher-order concepts. For example, as illustrated in Appendix J, the codes *conservative* and *fatalistic* are categorised as *attitudes* while *attention to detail* and *hard-working* are categorised as *behaviours*. This procedure is not simply a process of classification, it also has

explanatory power and facilitates coding as the number of codes and the volume of data being handled increases (Strauss and Corbin, 1989).

Following the open coding of case 3, code families are created. Open coding involves classifying sentences or paragraphs using an existing code list (Strauss and Corbin, 1989), which has already been derived from the data. The code list continues to be developed as more and more data is analysed. By case 4 and 5, fewer new codes are being added, and the last two cases are coded without further codes being created, indicating that 'coding saturation' had been achieved (Strauss and Corbin, 1989).

The creation of code families (see Appendix K), also known as axial coding (Strauss and Corbin, 1989) is a further process of abstraction as code categories are again grouped into higher-order concepts, thus creating relationships between categories. For example, code categories 'relationships' and 'customer contacts' became part of the 'creating and managing networks' family. During this process, the codes have in effect become the data being analysed. The code families are repeatedly reviewed for coherence and internal consistency and linkages between codes and code families are devised, as illustrated in Appendix K. Finally, these code families are clustered together in 'super families' (see Appendix L) prior to the cross-case analysis.

Thirty-two interviews were conducted, each producing a 20-page transcript, making a total of 640 typed pages of raw data. From this data, 452 codes were generated, based on 1 634 quotations, and categorised into 30 code families and 16 super families.

### **3.5.2. Preparation of narrative summaries**

The first step in the analysis process involves constructing a detailed narrative of each case from the raw data on the basis of coded quotations from the four transcripts which made up each case. The narrative summaries are intended to provide the reader with a 'vicarious experience' (Langley, 1999) of a real setting in all its richness and complexity. The narrative is composed of data consolidated from all respondents which enhances validity and reliability (Pandit, 1996).

The narrative summaries are organised into coherent multi-level categories (Taylor-Powell and Renner, 2003), based on the literature, to focus the analysis on the process of venture creation and the factors influencing it (see Appendix M). Data are also ordered chronologically to help understand how the process and its influences evolved over time (Pandit, 1996).

The researcher's summarising comments are fully supported by verbatim quotations from the transcripts, which contribute to the detail and authenticity of the accounts (Langley, 1999). This kind of narrative explanation is characteristic of the process approach, as it indicates what contributions and actions make to a particular outcome and then configures these parts into whole episodes (Van de Ven and Engelman, 2004).

During the preparation of the narrative summaries, the candidate struggled with how to reveal her own experience of and reflections on the interviews, without necessarily compromising the scientific approach to thesis writing (Perriton, 2001; Evans, 2000). Each entrepreneur interviewed offered a vivid perspective of new venture creation, which triggered a desire on the part of the candidate to create an evocative, experiential account (Evans, 2000). However, under self-imposed pressure to produce good, scientific research, the candidate thought it necessary to maintain an objective stance and not to contaminate the research with her own emotional engagement (Evans, 2000). Commentary on the research experience is therefore limited to this methodology chapter.

### **3.5.3. *Within-case analysis***

Within-case analysis continues the process of sorting and categorising the data, and involved preparing data displays (Miles and Huberman, 1994), using a variety of matrices or mapping devices, for each of the eight cases. The purpose of this step in the analysis was to reduce, focus and organise the information, as opposed to the extended text of the narrative (Miles and Huberman, 1994). This process allows the unique patterns of the individual case to be made explicit, prior to generalising patterns across cases (Eisenhardt, 1989).

The format for within-case analysis is determined partly by the literature and partly by the contents of the narrative summaries (Appendix N). A series of

frameworks from the literature are used implicitly or explicitly as analytical devices, including the well-used PEST framework for assessing macro-environmental conditions and the Porter (1980) model of the competitive environment. Chesbrough and Rosenbloom's (2002) business model framework is used to describe each entrepreneur's business strategy, which is also assessed using Rumelt's (1991) criteria for strategy evaluation. Each entrepreneur's social capital was assessed according to the dimensions of embeddedness (Aldrich and Cliff, 2003), and their personality assigned to one of Miner's (2000) four entrepreneurial personality types.

The candidate develops three analytical frameworks for use in the within-case analysis. The life-stage framework is intended to assist in understanding how early events in the entrepreneur's life influence entrepreneurially relevant cognition and behaviour. Events are depicted in five consecutive life stages, categorised as positive or negative, and their impact on the individual's needs and behaviour is estimated.

The new venture mapping framework is a visual representation of the idiosyncratic process of new venture creation. Standard events and activities are arranged in the sequence in which they occur, and relationships between them are indicated.

The metaphor analysis framework is intended to gain a deeper understanding of the meaning behind the metaphors entrepreneurs use to describe the entrepreneurial experience. A set of dimensions for deconstructing metaphors is defined, enabling systematic comparison across a range of sources.

#### **3.5.4. *Defining themes across cases***

The thematic analysis is the result of a search for cross-case patterns, based on the defined code families, the linkages between them and the relevant literature. The purpose of cross-case analysis is to enhance generalisability and to deepen understanding and explanation (Miles and Huberman, 1994). This phase of the analysis process is characterised by a deliberate effort to analyse the data in as many different ways as possible to avoid risks associated with reaching premature or false conclusions (Eisenhardt 1989; Miles and Huberman, 1994).

As early themes, concepts and relationships emerged from the analysis, the iterative process of developing hypotheses or models capable of explaining why things begin (Eisenhardt 1989; Miles and Huberman, 1994). Essentially, an emerging theoretical framework of new venture creation and its sub-processes is developed and systematically compared with the evidence from each case to assess how well or poorly it fits the data. This process conforms to Znaniecki's process of analytic induction, as related in Ratcliff (1994).

The final step in the analytical process involves what Eisenhardt (1989) refers to as unfolding the extant literature. Each element of the models developed through the analytical process is compared to existing approaches in the literature (Perry, 1998), identifying both similarities and contradictions and explaining the reasons for these. This process enhances the internal validity, generalisability and theoretical significance of the developed models (Eisenhardt, 1989).

### **3.6. Ensuring validity and reliability**

In qualitative case-study analysis which sets out to build theory, it is particularly important to explicitly test and confirm research findings and analyses. As the main instrument of the research, the human researcher is, normally, subject to multiple sources of bias that can weaken the validity of data collection, analysis and interpretation (Miles and Huberman, 1994).

Validity is pursued by incorporating deviant cases in the sample, by adopting a comprehensive data treatment and employing the constant comparative method in data analysis (Silverman, 2005). The reliability of the field data is strengthened by the use of field notes (Silverman, 2005). Clearly specified operational procedures enhance construct validity (Soy, 1996), while external validity is enhanced by establishing that the study's findings can be generalised to theories of new venture creation from developed-world studies (Pandit, 1996).

Data quality is evaluated by assessing representativeness, considering researcher effects and weighting the evidence (Miles and Huberman, 1994). Evaluations of the conclusions about patterns consider the meaning of outliers using extreme cases,

following up surprises and looking for negative evidence (Miles and Huberman, 1994).

Finally, the developed model of the new venture-creation process is considered from the perspective of whether or not it is a good theory. This means considering whether the final results are parsimonious, testable, logically coherent (Eisenhardt, 1989), accurate and generalisable (Weick, 1989).

### **3.7. Shortcomings and sources of error**

At the outset, limitations to this research design were anticipated, including: the difficulty of obtaining access to appropriate subjects; time-consuming data collection and analysis, non-standardised measurement and the lack of generalisability of results (Mouton, 2001).

The difficulty of obtaining access to appropriate subjects was overcome through the selection of respondents from the Enablis membership base. This increased the risk of bias, however it facilitated access to respondents and ensured that all cases had access to the same levels of support, in spite of being selected to maximise the differences between them (Patton, 2002) to bring out the widest possible variation in configurations of individual, group, organisation and industry (Korunka *et al*, 2003).

While a focus on opportunity, rather than necessity entrepreneurs and urban, rather than rural entrepreneurs may be considered to impose limitations on the research results, it is argued that given the differences between the groups, such a focus actually enhances validity (Silverman, 2002) in a way that is not necessarily characteristic of much entrepreneurship research, which has tended to treat all entrepreneurs as an homogenous group (Sarasvathy, 2003).

The data-collection process is appropriate for achieving the research goals because it emphasises the entrepreneurs' perspective of the new venture-creation process. A deeper understanding is possible because entrepreneurial behaviour can be understood in the context of the personal, social, business and macro-environmental conditions facing the individual at the time of new venture development. In addition, the interviewing procedures encourages entrepreneurs to make meaning by articulating their experiences (Seidman, 1998).

This interview structure achieves data triangulation and theoretical triangulation (Yin, 2003), in that the reports of the core respondent, the work colleague and the family member can be compared and contrasted with each other, increasing validity and reliability. In addition, the participant's comments are placed in context, and the sequencing of interviews over a period allows for idiosyncratic reports and enables the candidate to check for internal consistency in the core respondent's accounts (Seidman, 1998).

Reviews of the methodological literature allow the candidate to anticipate problems that might be experienced while conducting the interviews and to prepare for them by using particular interviewing techniques.

The central challenge of this research design and methodology rests with the volume of data that has to be managed. This intensive use of data is thought to yield theories that are overly complex, because of the difficulty of determining the most important relationships (Eisenhardt, 1989).

To some extent, this difficulty was reduced by using Atlas/ti, the analysis software, although it is nevertheless likely that some significant relationships have not been highlighted in this research report. Close attention to the original data helped to ensure accuracy (Langley, 1999), even though it may act against generality.

Since case selection was not randomly sampled, statistical generalisation of the findings to a larger population of entrepreneurs, regions or countries is not appropriate (Silverman, 2005; Yin, 2003). However, theoretical sampling was used in case selection, deviant cases were included and the research design employs analytic induction using the constant comparative method in case analysis, both between individual cases and the literature and across different cases.

Notwithstanding that analytical generalisation is inhibited by weaknesses in the literature, including those identified in Chapter 2.8, it is argued that analytical generalisation of the results to established theories of entrepreneurship is both possible (Yin, 2003) and desirable (Weick, 1989).