Teaching Entrepreneurship And Micro-Entrepreneurship: An International Perspective

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ABSTRACT

Entrepreneurship is an integral part of business education. However, the concept is often confused or used synonymously with capitalism, perhaps because entrepreneurship is one of the four factors of production and profit maximization is considered as the single most important topic in teaching theory of the firm. Using risk as the key variable in separating the domains of a capitalist and an entrepreneur, Schumpeter used innovation as the main function of an entrepreneur. The popularity of micro-credit in the 1980s extended Schumpeter's work to micro-entrepreneurship, popularly dubbed as "entrepreneurship with less". This paper traces the origin of the concept of entrepreneurship knowledge and extends it to micro-entrepreneurship with a goal of enhancing an understanding of the concept in the sphere of international business education.

Keywords: Entrepreneurship; Micro-entrepreneurship; Micro-credit; Schumpeter; Creative Destruction; Innovation

ENTREPRENEURSHIP: FROM CANTILLON TO SCHUMPETER

The term "entrepreneur" was first introduced in the Mercantilist age by Richard Cantillon (1680-1734). Schumpeter (1954) noted "Cantillon had a clear conception of the function of the entrepreneur that was quite general, but he analyzed it with particular care for the case of the farmer. The farmer pays out contractual incomes, which are therefore 'certain,' to landlords and laborers; he sells at prices that are 'uncertain'. (page 214)". Here, for the first time, Cantillon made a distinction between certain and uncertain incomes, thus incorporating the element of risk, which distinguishes an entrepreneur from a laborer. The idea thus developed by Cantillon was incorporated into Say's *Treatise on Political Economy* (1821). Say defined an entrepreneur as an agent who combines other resources into a "productive organism". He also used the term to indicate shifting of resources from a lower productive state to a higher productive state. It is important to note that Say did not incorporate the element of risk in his analysis of entrepreneurship although Cantillon alluded to it.

John Stuart Mill developed the concept of risk further and associated entrepreneurship with activities involving risk and profit (Mill, 1871). In *Principles of Political Economy (1909),* Mill wrote:

"...interest, is all that a person is enabled to get by merely abstaining from the immediate consumption of his capital, and allowing it to be used for productive purposes by others. The remuneration which is obtained in any country for mere abstinence, is measured by the current rate of interest on the best security: such security as precludes any appreciable chance of losing the principal. What a person expects to gain, who superintends the employment of his own capital, is always more, and generally much more, than this. The rate of profit greatly exceeds the rate of interest. The surplus is partly compensation for risk. By lending his capital, on unexceptionable security, he runs little or no risk. But if he embarks in business on his own account, he always exposes his capital to some, and in many cases to very great, danger of partial or total loss. For this danger he must be compensated, otherwise he will not incur it."

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Although Mill incorporated risk in his analysis of profit and linked it to entrepreneurship, he, in fact was using the terms "entrepreneur" and "capitalist" synonymously. It appears that during most of the later nineteenth century, the two terms were used synonymously. Joseph Schumpeter is the first economist who distinguished between an entrepreneur and a capitalist (Schumpeter, 1939, 1942). According to him, assumption of risk involving innovation is the role of the entrepreneur, while assumption of risk involving potential for profit is the role of a capitalist. Both an entrepreneur and a capitalist undertake risk; but their *domains* are separate. Individuals who own business and take risk with their capital in pursuit of profit, but do not innovate, are capitalists. In other words, all entrepreneurs are capitalists, but all capitalists are not entrepreneurs. There are individuals who take risk by introducing a new product, adopting a new production process, creating new markets, introducing new technology or creating a new economic organization. Schumpeter referred to these individuals as "entrepreneurs" who belong to a "distinct sociological class". According to him, the process of discovery and innovation modifies the past and creates new opportunities for the creation of wealth in the future. This is what Schumpeter described as the process of "creative destruction".

According to Schumpeter, innovation was at the heart of entrepreneurial function since innovations cause old inventories, ideas, technologies, skills, and equipment to become obsolete. He reasons, the question is not "how capitalism administers existing structures, [but] how it creates and destroys them." This creative destruction, he believed, causes continuous progress and improves the standards of living for everyone.

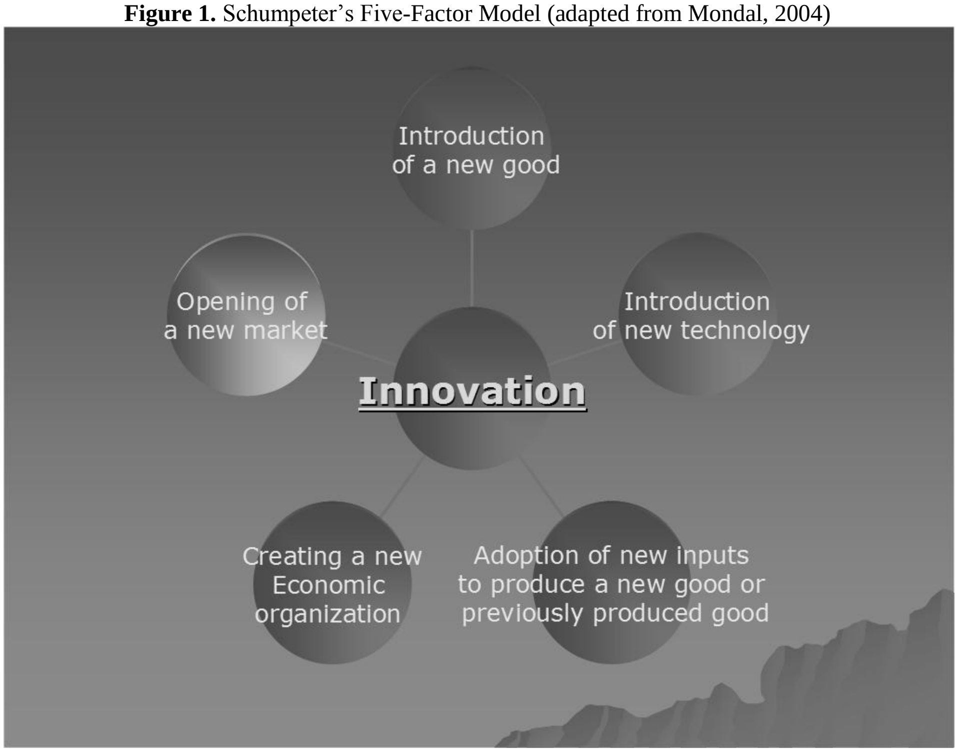
Consistent with his analysis of risk-taking by an entrepreneur, Schumpeter disagreed with the prevailing notion that "perfect" competition was the way to maximize economic well-being. Under perfect competition, he argued, all firms in an industry produce a homogeneous good, which sells for the same price and where all firms have access to the same technology. In the chapter on Creative Destruction, Schumpeter wrote, "But in capitalist reality as distinguished from its textbook picture, it is not that kind of competition which counts but the competition from the new commodity, the new technology, the new source of supply, the new type of organization (the largest-scale unit of control for instance)—competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and their very lives." (Schumpeter, 1942)

Schumpeter's analysis of entrepreneurship puts innovation at the center of business activity that brings about a new production function as a result of one or more of the following five economic activities:

1. Introduction of a new good
2. Adoption of new inputs to produce a new good or the previously produced good
3. Introduction of new technology
4. Opening of a new market
5. Creating a new economic organization

Schumpeter's model is presented in Figure 1.

Figure 1. Schumpeter's Five-Factor Model (adapted from Mondal, 2004)



Schumpeter's theory of entrepreneurship stimulated extensive writing on the subject. Numerous studies have supported various sets of personality characteristics based on certain assumptions about behavior where sets of criteria, traits and personal principles and characteristics provide different types of insight. An approach now gaining more popularity explains entrepreneurship by combining economic, personal, and sociological variables. Personal characteristics, such as the need for achievement, risk-taking propensity, locus of control, Beliefs about wealth and material gain, and business growth are related to a person's predisposition toward business leadership (Gartner, 1990, McDaniel, 2002). A belief that a person can influence his or her personal destiny and locus of control distinguishes entrepreneurs from the general population. The micro-entrepreneurs possess the traits and characteristics of the "distinct sociological class" described by Schumpeter. In a recent article, Carayannis and Stewart (2013) used two descriptors namely "obsessed maniacs" and "clairvoyant oracles" to characterize the modern day entrepreneur. In another recent study, Rauch (2015) investigates entry in dynastic entrepreneurship environment by incorporating several human resource elements such as non-compete enforcements and contract buy-outs.

There have been significant discussions on the role of an entrepreneur in developed and developing economies after the work of Schumpeter, particularly by Sweezy (1943), Leontief (1937), Angell (1941), Wright (1947), Lange (1943), Rostow (1948) and McDaniel (2002). The success of a venture is not solely achieved by the combination of the factors of production, since human creativity and productivity determine the extent of such success. Some authors describe entrepreneurship as the study of *how, by whom and with what consequences opportunities to produce future goods are discovered, evaluated and exploited* (Venkataraman and Shane, 2000). This means it is a concept very close to innovation. Other authors take a deeper look into the organizational factor of entrepreneurship. They conclude entrepreneurial activities are associated with individuals seeking the creation of new firms instead of individuals who are trying to change existing ones (Carter, et al, 2003). Therefore, it could be said that entrepreneurship can be contextual at times and the domain of an entrepreneur depends on the organizational environment and the objectives of the organization.

Modern studies place entrepreneurship as part of the context in which the individual has a role of a decision-maker. This means an entrepreneur must mainly localize the opportunity (recognizing the product decision) and make the decision of how to commercialize it (market segmentation decision). Trying to explain where these

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opportunities are, some scholars adopted the knowledge production function while others like Griliches (1979), formalized this concept by stating companies exist as an external entity, engaging in the knowledge process that allows individuals to develop internal creativity. Therefore, opportunities are meant to exist in more specific industries than others, depending on the amount of knowledge and room for creativity the industry itself offers. It appears that the concept of entrepreneurship has flourished in developed economies and not much has been done for the use and application of this concept in relation to developing economy. Although Rostow (1948) provided the theory of stages of economic growth, much of his theory came under close scrutiny in the latter half of the twentieth century particularly with the onset of a service economy. Many developing economies showed signs of prosperity through proper planning of their manpower and surplus labor. The globalization of the world economy speeded up the process of integration of both developed and developing economies. In reality, Schumpeter's model works through the transformation of a production function. Using microcredit, micro-entrepreneurs of many developing countries, notably Bangladesh, have been able to transform their existing businesses to other organizational forms, which use intermediate technology or advanced technologies (Mondal, 2002).

ENTREPRENEURSHIP, INNOVATION AND PROFIT MAXIMIZATION

In today's economy, the concept of entrepreneurship using innovation as a premise has proven that there is no need of large corporation to foster technological changes and that small business can become pioneers of future trend that can change the market. However, when managers in big corporations are able to define the best concept of value for a specific product, they can also act as entrepreneurs inside the organization. In this process, they are creating an opportunity for innovation and profit maximization through the creation of new strategies based on better combination of available resources. Therefore, their strategy is focused on the creation of value. This process implies they can differentiate a product from its substitutes in the market, while using the same amount or less of inputs than their competitors.

Some authors place the process of knowledge creation through entrepreneurship as innovation (Chandler, 1977). It could be argued that the global expansion and accessibility of knowledge leaves out low or non-performing societies with vast opportunities and available resources. This implies that entrepreneurship, as a factor of production, is under-exploited in many countries. It could also be argued that this under-exploitation becomes a new opportunity to countries with scarce resources but plenty of an entrepreneurship culture.

Technology itself has allowed "common people" to make use of their creativity and start small businesses. Furthermore, their success is not prevented by what could be thought as the lack of resources that big corporations can handle. One important factor that should be taken into consideration in this respect is price. Entrepreneurs seek opportunities that can be reflected by the price system since such a system will impact the amount of profit the exploitation of this idea will bring for the new enterprise. Entrepreneurs wishes to usually go beyond making just profit, because the risk they have taken sometimes are so numerous that they will certainly go for the profit-maximizing level of output. A general and ideal rule of profit maximization is to achieve a level of output where marginal revenue equals marginal cost. An entrepreneur usually opts to stay in business when in the short run the price of the product at the lowest level of output allows to cover variable costs.

Another important factor to analyze about Entrepreneurship is its value as an intrinsic part of a capitalist economic system. As a system, capitalism is always in constant change and evolution. In other words, as the force that triggers entrepreneurship is change, then replacing new processes, products and methods in the market will eventually mean "destroying" past trends and concepts in order to give space to new eras of products, market conditions, and, eventually new ways of competition. The economic structure evolves in a process of improvement and reinventing itself from within through a constant cycle of getting rid of the old structure and receiving the new one. However, benefits from this turmoil of changes are not always instantly visible, and societies may need long periods of time before enjoying higher living standards, or better jobs and wages, and general economic growth. The paradox of this new creation that destroys the old is explained by analyzing how during this process of creation sometimes individuals get laid off; companies go bankrupt (competition becomes too hard by the introduction of new products); or companies get overwhelmed by the creation of new and more efficient ones.

MICROCREDIT AND MICRO-ENTRENEURSHIP

Micro-entrepreneurship is an offshoot of the collateral-free and group-based lending known as microcredit operation developed by Rabindranath Tagore in 1905 (Mondal, 2002). The essence of microcredit program, as envisioned by Tagore, is the absence of physical collateral. Microcredit is defined as a system of credit delivery and savings mobilizing scheme especially designed to meet the unique financial requirement of the poor. The financing scheme allows the recipients to improve the status of their living through access to additional capital without collateral. A borrower of microcredit must belong to a group to qualify for a loan. The original microcredit model required that a group of five individuals guarantee repayment of a loan offered to one member at a time. Once a group member has paid off a loan, another member of the group may qualify for a new loan or a repeat loan may be granted to a non-defaulting client. The original model has gone through many transformations, and today more than 120 countries have some form of the microcredit or micro-lending operation. A specialized financing institution known as Microfinance Institute or MFI carries out Microcredit operations. Microfinance clients are typically self-employed, low-income borrowers in both urban and rural areas. Clients are often traders, street vendors, small farmers, service providers (hairdressers, rickshaw pullers), artisans and small producers, such as blacksmiths and seamstresses. Usually their activities provide a stable source of income (often from more than one activity). In addition to financial intermediation, many MFIs provide social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group. Thus the definition of microfinance often includes both financial intermediation and social intermediation. The size of an initial loan or the microcredit varies from MFI to MFI. A variety of loan products is available and more are being developed for individuals and businesses.

In Bangladesh, the birthplace of microcredit, the primary goal of microfinance operation is poverty alleviation; however, providing assistance to an existing microenterprise and developing the micro-entrepreneur class has become the secondary goal in many countries. The rapid growth of MFIs coupled with a near perfect loan recovery rate (over 90 per cent in most countries) has been accompanied by development of a variety of loan products. During the past 30 years, the number of borrowers increased manifold. However, all borrowers do not fall into the same category. In most instances, MFIs make a distinction of borrowers and offer differentiated loan products to different groups. Mondal (2002 classified the borrowers of MFIs, as:

- Micro-borrowers
- Micro-entrepreneurs

The micro-borrowers fall in the class of capitalists whose goal is to generate increasing income opportunities. These are borrowers who demonstrate the willingness and ability to generate a steady flow of income through conventional sources such as trading or paddy husking. There is no significant risk involved in the income generating activities of the micro-borrowers. Their labor is the predominant input, which is supplemented by a stock of capital in the form of a microcredit. The micro-borrower's ability to repay the loan is evaluated jointly with other members of the group. A micro-entrepreneur usually owns a microenterprise and is engaged in innovating new ways of doing business or initiating changes in the production function, exploring market opportunities for his product and, ultimately changing the *culture* of doing business.

Since its inception in the 1980s, most developing countries of the world have adopted either the group-based or the individual model of microcredit. Studies by Mondal (2012), Mondal (2011) and Mbeki (2005) on the operation of Microcredit in Bangladesh, Malaysia and Sub-Saharan Africa show that, based on the number of borrowers and the volume of loans, success of micro-financing schemes have been mixed. Most analyses conclude that the limited success of the microcredit in developing countries was linked to the size of the loan. The same general conclusion applies to the growth of the micro-entrepreneurship program.

CONCLUSION

The paper traced the origin of entrepreneurship knowledge with particular reference to the domains of an entrepreneur and a capitalist. Following Schumpeter's five-factor model of entrepreneurship, the paper extended the production function approach to micro-entrepreneurship. Finally, an analysis of the operation of micro-financing in

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developing countries show that micro-entrepreneurship has achieved limited success due to a number of factors including small amount of loans and the level of poverty. In analyzing entrepreneurship and micro-entrepreneurship on a global level, more research needs to be focused on the distinction between profit making and entrepreneurship.

AUTHOR INFORMATION

Dr. Wali Mondal (principal author) is a Professor of Economics at National University. He obtained his Ph.D. from The Ohio State University, Master's degree in Development Economics from Boston University and a Master's and Bachelor's degree with honors in Economics from Rajshahi University, Bangladesh. Professor Mondal has worked and consulted for many national and international organizations including the United Nations Development Program, the World Bank, the State of Ohio and Duke Energy. He has taught in a number of universities in the United States, Bangladesh and New Zealand. During 1993-96, he was Chair of the Accounting, Economics and Business Education Department at Henderson State University in Arkansas. He served as the Interim Dean of the School of Business and Management of National University during March 2007 to June 2008. Professor Mondal's research areas include entrepreneurship, microentrepreneurship and economic development. He has published and presented approximately 100 papers in many national and international conferences and journals. In 2002, Professor Mondal published a book titled Microcredit and Microentrepreneurship - Collateral Free Loan at Work in Bangladesh. Professor Mondal is the editor-in-Chief of the Journal of Business and Behavioral Sciences, Journal of Business and Accounting, the Journal of Business and Educational Leadership and the ASBBS eJournal. He is also a member of the Editorial Board of a number of journals. He is the Founder-President of the American Society of Business and Behavioral Sciences (www.asbbs.org) one of the largest interdisciplinary professional societies.

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