SMALL BUSINESS AND ENTREPRENEURIAL VENTURE IN AN ECONOMIC CONUNDRUM

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ABSTRACT

Entrepreneurial Ventures are resilient to economic duress, while providing higher quality and quantity of jobs, products and services. A needed entrepreneurial economic omnipresence pervasively stimulates socio-economic mind-set in opportunity rather than resource pursuit. A managed economy is under challenge by a knowledge economy and the policies of the former have become irrelevant for the latter. The unpredictable economic times call for a flexibility associated with an entrepreneurial economy. In this presentation, a literature review was conducted to highlight this conundrum in an economy. The findings are that entrepreneurial ventures have their distinctive features from simply small business enterprise and are better served in an entrepreneurial economy than a managed economy. The significance of an entrepreneurial business and economy for individuals and policy makers alike has never needed an emphasis as in the days of our economic volatility.

KEYWORDS: Economy, Business, Entrepreneurial, Managed, Venture

INTRODUCTION

An Entrepreneur is an individual who starts and runs a business with limited resources and planning, taking account of all the risks and rewards of his or her business venture. The business idea is usually a new innovation, product or service, rather than an existing business model. Such entrepreneurial ventures target high-returns, with high level of uncertainty. The entrepreneur is willing to put his or her financial security and career at stake to take risks on an idea, spending time as well as capital on an uncertain venture. Entrepreneurial ventures require the enterprising individual to arrange for capital, raw materials, manufacturing locations and skilled employees necessary to produce a good or offer a service. Marketing, sales and distribution are other important aspects which are controlled by the entrepreneur. Today’s technological advancements (like online ventures) have allowed the entrepreneurs to skip a few mandatory needs (like procuring manufacturing facilities, door-to-door marketing) or outsourcing selected functions (like marketing, sales & distribution), but the risk is still borne by the entrepreneur.

Entrepreneurship is different from:

- Inheriting and/or running an existing business (family owned, co-owned)
- Working for other businesses or entrepreneurs for a salary
- Being a commission agent
- Selling already available goods or services as a franchisee or dealership

There is a very fine line between running a small business (SB) and an entrepreneurial venture (EV) as they have a lot in common. Initial stages of both SB and EV need significant hard work and dedication, but over a period of time very few SBs become EV.

LITRATURE REVIEW

This paper has been realised by the use of literature review on the features of small business venture and an entrepreneurial venture. It is known that entrepreneurship is accepted in many settings as something good. The role of small business is notable to the economies in a glance. It is noted that 99% of businesses in developed economies is small business and provides half of employment needs at any given point (Bennet, 2008). Whereas this position of employment provision is well celebrated, Reylands and Lancester (2007) have reported that this sizeable employment provision which is thus celebrated is mainly due to the large number of small businesses. Audrestch (2012) points that in UK alone there are 4.8 million small businesses. It therefore comes as no surprise that a number of people get employed through small business ventures. Small business, however, is often associated with the problem of growth interest as opposed to entrepreneurial ventures. Gray (1998) and Chaston (2008) have reported that small businesses don’t embed growth interest in their operations. This understanding is well supported by McKelvie and Wiklund (2010) who affirm that most small businesses don’t grow beyond
very small. As to whether a large number of businesses are entrepreneurial remains a matter in its right for further study. The policy makers also operate in an understanding that entrepreneurial development is of great importance, however, as to whether the economy in which they operate in is entrepreneurial, remains a bone of contention that needs analysis by the features stated herein. Thurick and Wennekers (2004) express the similarity of the terms entrepreneurship and small business, whilst denoting that they are not the same concepts. Entrepreneurship has been noted as opportunity seeking behaviour rather than resource seeking (Stevenson and Gumpert, 1991). This tendency, nonetheless, can be reported in both small businesses as well as in big business. This therefore points that entrepreneurial behaviour can be found both in small business as well as in big business. The main focus, however, is that there is an aspect of innovation as well as growth in an entrepreneurial business. Schumpeterian’s view that small business entrepreneurs introduce change to the industry by the new processes and products they bring forth in addition to income and employment emanating from small business is more descriptive of an active entrepreneurial venture. It should be noted that there are persons who run a business for just a living (Wennekers and Thurik, 1999). It is this group (those that run a business for a living) that others have termed as necessity based entrepreneurs (Scheepers, Solomon, and De Vries, 2009). This understanding is limited to the event of starting a business venture, but the entrepreneurial venture continues in the risk zone in search of growth and uniqueness regardless of business size. Small business has, however, operated under different periods and has served in different circumstances. During the post war period, small business mattered more on social and political grounds but its economic efficiency for survival was doubted. As to whether small business would have had any future existence was subject to the understanding that only big business had the capacity for existence on economic efficiency grounds. It may be noted that in the 60’s and 70’s before big businesses gained great prominence small business provided jobs and hence the social and political stability element thus nurtured. Nonetheless, policy was influenced by the reasoning of Schumpeter (1942); Galbraith (1967) and Chandler (1977) that the future lay in the hands of big businesses since small business would be annihilated by its own inefficiencies.

The organisational economies upon which small and large business operate have been broadly categorised as either a managed economy or an entrepreneurial one. The dominant inputs of the managed economy include land, labour and capital. The certainty of outputs mainly from manufactured products was assured under the managed economy. The high costs associated with economic activities have nearly been done away with through the revolution of telecommunications and computer networks. It is in this context that high cost production can be done in low cost settings as far as a globalised economy is concerned. The costs of production helped in the certainty of outputs of production. There is however an element associated with entrepreneurial economy which has been so much under use through globalisation- the knowledge factor. Knowledge as a factor of production is characterised by high uncertainty unlike land, labour and capital and at the same time costly to transact (Audrestch and Thurik, 2004). It is important to underscore the fact that a number of economies especially less developed economies will operate under certainty where outputs are easily determinable as opposed to the volatility associated with the knowledge factor. The certainty of outputs in a managed economy is likely to be cherished right from small business to the entire economy given that the investment costs are less. This understanding is possible even in small business, but at the same time it limits capacity to operate entrepreneurially in investment decisions with greater returns.

The role of small business is to be seen within the entrepreneurial dimensions other than social or political overtones, if a nation is to thrive in its economic development. A wide range of evidence has recently suggested that entrepreneurship as economic growth determinant is vitally significant (Audrestch and Thurik, 2000; Audrestch et al, 2001; Caree and Thurik, 1999; Audrestch et al, 2002a; Caree et al, 2002). With the consequences of economic recession where companies were closed down in a number of areas as well as massive job losses, it becomes imperative to deliberate on the distinction between a small business and an entrepreneurial one. This is more relevant in that entrepreneurial businesses have been known to exhibit survival capacity as compared to ordinary businesses.

As part of a commercial environment, the two economies are fully addressed in terms of a managed economy and an entrepreneurial economy in order to have a clear view if policy is to be adopted towards a full support of an entrepreneurial flair. The environment will spur up the business venture. It is clear that a small business can operate in both the managed economy as well as the entrepreneurial one. However, it takes painful strides for an entrepreneurial business to operate under a managed
The need to understand the difference between small business and entrepreneurial ventures is captured by Nieman, Hough and Nieuwenhuizen (2008:10), who argue that though both are important for the development of the economy, yet there is a need to distinguish the two. The pursuit and creation of new opportunities is not the same in each case as supported by Wickham (2001) and this presents different challenges to policy makers. Whereas both need entrepreneurial start up, yet unlike entrepreneurial ventures, small business ventures stabilise at a certain stage and then end up growing with inflation. Small business owners have also been noted for the personal goals and security aspiration in furthering their business. Examples of small business ownership can be noted in characteristics of artisans, manager, craftsman and administration and family businesses among others (Watson 2001:50). In understanding the difference, Carland J.W., Hoy, Boulton & Carland, J.C (1984:358) assert that small business can be generally termed as any business owned and operated independently, and yet it is not dominant in its field of speciality and at the same time does not engage in new marketing and innovative practices. If this perception of small business is taken to exclude entrepreneurial activity, then this understanding will imply that for a business to be entrepreneurial, it has to be big or large business. This would be disfavour to small businesses that are entrepreneurial as well as large businesses that are not necessarily entrepreneurial. The main aspect should be the entrepreneurial behaviour rather than the size of the business. There is no given guarantee that if the business growing, it is necessarily entrepreneurial, although entrepreneurial businesses through innovative marketing have this embedded as their goal. The growth of a business can as well be spontaneous as a result of other economic factors such as increase in population in a given area. The challenge to this growth is that since it is not planned, it may dwindle if substitutes or competitors arise, due to lack of a sustainability foresight as an entrepreneurial goal. It is equally important to record the defining characteristics of the South African small business in the National Small Business Act, Act 102, of 1996. The definition provided covers all sectors of the economy and covers all types of enterprises while focusing mainly on two sections: the qualitative and quantitative criteria.

The qualitative criterion does relate to the ownership structure of the business and consists of the following:

- It has to be a distinct and separate business entity;
- It includes any subsidiaries and branches when measuring the size;
- It is not part of a group of companies;
- Has to be managed by the owners
- It has to have a natural person in the form of sole proprietorship, partnership and yet at the same time it can be a legal person, such as a close corporation or a company. (Nieuwenhuizen, Machado, Jacobs, et al 2004:9)

The quantitative criterion categorise businesses into very small, small and medium in accordance with the different sectors of the economy. The guidelines dealing with this area are pointed out by Nieuwenhuizen, Machado, Jacobs, et al (2004:9) follows:

- The total asset value which is calculated in exclusion of fixed asset value;
- The total number of fulltime employees; and
- The annual total turnover.

The small businesses are said to support the lifestyle of the owner and therefore the issue of security and autonomy are much more emphasised. Growth as an objective is not the primary goal of small businesses. It is also considered that if the earning is a smaller even when it could be lower than when they were employees, this may be satisfactory to the business owners.

Entrepreneurial ventures on the other hand express a fundamental objective of profitability and growth. According to Nieuwenhuizen, Machado, Jacobs, et al (2004:9) one of the objectives of an entrepreneur is...
the favourable difference between expenses and income referred to as profit. This is the cornerstone of a free market system. Wickham (2001:24) points out three characteristics that distinguish entrepreneurial ventures from small business as follows:

Entrepreneurial ventures set out *strategic objectives* regarding the target markets, market share, market position and market development. Small business is often limited to profit target, sales and survival. It is for this reason that entrepreneurial ventures end up creating employment.

The second aspect by which entrepreneurial ventures are distinguished from small business is the area of *innovation*. Entrepreneurial ventures thrive on innovation. Innovation can be described as a new way of producing or the new product itself, the service offering, marketing or distribution and at times it can be a way in which the organisation is managed or structured. Small business is mainly involved in delivering an established product or service without the consideration of the above. It is equally important to note that innovation may be erroneously termed as the new product development only. However, the various aspects noted in this understanding are worth taking into account, namely that it can be innovation in terms of service offering, or marketing, or distribution let alone organisational management or structure. Organisational structure may for example limit or enhance the productivity and perhaps the profitability of an enterprise and so could other factors like service offering and distribution channels.

The third area characteristic of entrepreneurial ventures is the *growth potential*. These ventures have a potential for growth as compared to small business due to their innovative approaches. Not only does it create a niche in the market but it has the potential to create its own market. Venter, Urban and Rwigema (2011) consider that traditional management is functionalist in design, whereas entrepreneurship entails a discovery of new skills for organisational development. The emphasis on growth and new venture creation become the fundamental principles of entrepreneurship. While the venture is still small, an entrepreneur plays the roles of management. However, after attaining growth, professional managers are hired to deal with the functional design of the organisation. Gorman, Hanlon & King (1997) have stipulated that business entry is an entrepreneurial activity. Its scope does include the following:

- The exploitation and detection of opportunity;
- Tendency to exercise more creativity;
- Developing self-reliance;
- The bridging of gaps in functional areas;
- The fostering of entrepreneurial behaviour;
- Process-oriented and multidisciplinary approaches; and
- Projecting into the future and so plan in detail to a greater extent.

**The Concept of a Managed Economy vs. Entrepreneurial Economy**

In underscoring this section, the understanding of an entrepreneurial economy vis a vis the managed economy is addressed. The background of entrepreneurial intentions is on the understanding that the prevailing environment is understood on the grounds that the present economy is either managed or entrepreneurial. The economy till the 80’s was dominated by the capacity of capital and labour (Coarse, 1937). The future of the world economy according to statistical evidence was supported by the existence of large scale enterprises in accordance to the procurement costs, predictable technological advances and consumer preferences (Caves, 1982; Tees, 1993 and Brook and Evans, 1983). The visibility of large scale giants in enterprise development associated with the managed economy pointed out the vulnerability of self-employment as well as the waning of small business enterprise. The managed economy known for its stability in managing capital, labour as well as exploitation of resources gave economic assurance for those with capital and higher levels of investment in developed and developing economies. Solow (1956; 1957) even developed models that supported the understanding that capital and labour were the main economic drivers for economic efficiency. However, Romer (1986; 1990) and Lucas (1988) discovered that in explaining the long term growth, labour and capital were not the sufficient factors required. At a later development Jones (1995) and Young (1998) agreed to this proposition. These discoveries led to the understanding that long term growth was embedded in endogenous growth models where knowledge was crucially significant. In the neoclassical theory, the development of technology was only seen as an exogenous factor. This also pointed out the failure of explaining long term labour productivity in an economy.

The futility of small business had already received its unfavourable predictions from academia on the basis that further development in knowledge as a component of global competitiveness in global
markets would unfavourably point to the futility of small business and self-employment. Knowledge which has been measured by research and development, patents and human capital would energise those in control of managed economies was the understanding. Conclusions by Chandler (1990) indicated that for one to compete globally, one had to be a big business. This was in conformity with the writings of Vernon (1970) whose prediction was that an increased globalisation would create a very hostile environment for small business. The firms that would be dominant would basically deal with the exports and would drive small business into a hiding. The number of global players would as well be reduced as the consolidation through mergers and acquisitions took place. Contrary to this understanding, a small business has turned out to be an engine for economic development and growth. The sources of competitive advantage in a managed economy were the political, economic and social aspects of production with large scale production with mainly unskilled labour and capital, whereas the entrepreneurial economy is not dominated by capital but knowledge in a social, economic and political platform with the previously overlooked complementarities of entrepreneurial capital. (Audretsch and Thurick, 2001a; 2004)

An entrepreneurial economy as considered by some analysts is not limited to small business or its ownership. Its omnipresence provides a socio-economic mind-set that is pervasive and calls for the thinking aligned to opportunities than resources. The basis of an entrepreneurial economy is linked to the concept of absorbing uncertainty. Knowledge and ideas form its foundations much as investment may and it’s not organisationally based but upon persons or individuals. Whereas the managed or planned economy is based on exploitation, the entrepreneurial economy is based on exploration. The thriving of an entrepreneurial economy is engendered on the development of an entrepreneurial culture rather than regulation.

The characteristic elements of a managed economy have often included the hierarchical, bureaucratic structures in organisations. Organisations created varieties with predictability of future changes, life time employment was available and good relations were enjoyed with the gigantic trade unions. Although, business schools have been busy training for their learners for corporate organisations, it was discovered that an interesting data existed in favour of small business and its role in the economy. In the United States alone it had been observed that the average real GDP per firm had increased by nearly two-thirds from 1947-1989 as evidenced by the monetary value of $ 150,000 - $245,000, this in essence reflected on the fact that firms were growing larger and bigger and at the same time providing no room for small enterprises. However, in a seven year period there was a sharp decline of no less than 14% leading to a value of $210,000 (Brock and Evan, 1989). The rising of the small firms was also noted, for example in 1976, the small firms had risen to a fifth of manufacturing sales in the United States. This growth continued and by 1986 it had risen to over a quarter ( Acs and Audretsch, 1993). Further research to this effect is confirmed by a study in which the 2007 observations were taken into consideration using the per capita income and the innovation index and it was discovered that there was a strong U shape relations between entrepreneurship and economic development (Thurick and Reynolds, 2007).

The dominant factors for the managed economy as mentioned above are capital and labour. The mobile capital moves to where labour is considered cheaper and such labour can be in the form of hardware. This is very well contrasted with the entrepreneurial economy where knowledge is the dominant production factor. Such knowledge is not confined to technical and scientific categories. This kind of knowledge may include creativity, communication and emotional intelligence abilities. The knowledge thus acquired can lead to innovative activity. Entrepreneurial economy is known to thrive on change and strives towards it as opposed to managed economy that envisages continuity. In both economies, the aspect of innovation is observed, however, in a planned economy, it is gradual where as in entrepreneurial economy, it is radical with the creation of new start-ups. The aspect of new innovations can take the trend of going beyond the boundaries considered as core to the business or organisation even on the existing technological boundaries of an organisation.

Another aspect of an entrepreneurial economy is that high employment levels can be coupled with high wages as opposed to the managed economy where high employment results to lower wages. Small firms have been known for their productive ability as well as their ability to create employment (Erken, Donselaar and Thurik, 2008). In has also been observed that the creation of new enterprise has been associated with high wages. In the managed economy job creation by smaller firms is also associated with lower wages as opposed to an entrepreneurial economy where jobs and higher wages can be created together (Acs, Fritzoy and Smith 2002 and Scarpetta, Hemmings, Tressel and Woo, 2002).
The observation of firms in both economies and the modalities of their operations is of note. For example the managed and entrepreneurial economies have characterising traits for firm operations as evidenced in either control vs. motivation, firm transaction vs. market exchange, the competition as well as corporation as opposed to complements, finally scale vs. flexibility. The former of the characteristics attributed to the managed economy and the latter to an entrepreneurial economy. Labour is considered as one of the factors of production that is replaceable under the managed economy and therefore it is under the managed and control approach of management whereas in an entrepreneurial economy motivation of labour is necessary for the creation and implementation of ideas. For this reason, the nurturing of relationships becomes important.

Due to high uncertainty firms tend to be more efficient in entrepreneurial economies than in managed economies. Coase (1937) and Williamson (1975) point out that the intra firm transactions costs increase through uncertainty and imperfect information. However, Knight (1921) argues that intra firm transactions become efficient when low uncertainty is combined with information predictability and transparency. From the mid 70’s, the economic landscape has become uncertain and unpredictable which has led to a decrease in firm size and conglomerations (Carlsson, 1989).

The pervasive linkages are presumed in a managed economy among firms, competition and collaboration and therefore serve as substitutes in moments of uncertainty. In the entrepreneurial economy the firm’s independence is considered since each firm specialises in the market product. Substitution is the major motivation for the entrepreneurial economy, rather the competition is and cooperation is high. This is due to the fact that there are many firms and the interface or competition is high. The managed economies curb their costs of production through the economies of scale that are associated with the large scale production associated with the predictable demands and consumer tastes and so the exploitation of resources serves the purpose (Chandler, 1977). However, under the entrepreneurial economy, the available option to lower the cost of production is the flexibility (Teece, 1993). The changing demand of products can best be addressed by flexibility.

The entrepreneurial economy has been known to thrive on turbulence, diversity, innovation, flexibility, linkages and clustering whereas the managed economy on the other hand is focused on specialisation, scale, homogeneity, predictability and stability. It is therefore no wonder that the entrepreneurial economic environment is occupied with heterogeneity, diversity and turbulence which is in contrast to the managed economy which has stability, homogeneity and specialisation. The homogeneous product demand in the managed economy lends to the stability in the context and along with that comes the issue of jobs and firms having a low turnover. This is unlike the entrepreneurial economy where the degree of turbulence is high. Though many firms are started each year, only a few survive (Nelson and Winter, 1982).

Although a number of aspects seem to be shared in both the entrepreneurial economy and a managed economy, it should be understood that aspects such as the diversity and selection which are at the heart of change are done differently. For example Nelson and winter (1982) argue that under a managed economy, a firm may have research and development department, the research activities are scheduled to take place in the routinized firm environment and therefore the findings must conform to the accepted norm. This may not be compared to an entrepreneurial economy where managing such a venture leads to start-ups as opportunities emerge.

On the other hand, schools of thought have been advancing with arguments related to the specialisation efforts of the managed economy as well as the diversity standpoint of the entrepreneurial economy. Specialisation in production has been associated not only to lower costs but also efficiency in firm production, whereas the dynamism of diversity in entrepreneurial economy has also been advocated to enable heterogeneity of ideas to be developed and thus a level of efficiency as this ideas turn into innovation through the spill overs of opportunities. The lower transactions costs are therefore given up for the sake of knowledge spill overs of knowledge generated through diversity that is permitted.

In homogeneous settings associated with a managed economy, communication is simplified between individuals as opposed the entrepreneurial economy where communication based on heterogeneity is costly. This lends to the understanding that the transaction costs are likely to be higher and the efficiency power is lower. Yet at the same time, the ideas generated in the heterogeneous settings associated with the entrepreneurial economy have a novelty and innovation unequalled in the homogeneous setting of a managed economy (Acs, Fitzroy and Smith, 2002).
The area of government policy is also an important area where the two economies are not the same. In the managed economy, the government develops constraining other than enabling policies. This is much evidenced as in the case of public policy towards business, encapsulated in the three aspects of the antitrust policy dealing mainly with the competitive behaviour of entities, public ownership and regulation. The main government question directing policy in these contexts is how can the government help stop the abuse of market power by the players? The making of excessive profits and the abuse of market dominance feature the question policy of government in a managed economy. The guiding question for a government under the entrepreneurial economy is how can the government create and foster the viability of firms?

The stimulation of the firms, with the intent of creating international opportunities, growth and employment are the guiding questions in this context. The targeting of the knowledge inputs is characteristic of entrepreneurial economies as opposed to managed economies where emphasis is on capital, land and labour. In the process the managed economies also face the situation where the government is grappling in the uncertain issues of what to produce, who to produce it and how it should be produced. This is likely to lead to wrong firms being targeted with government policy. The outputs are targeted in a managed economy. Entrepreneurial economy policy targets the inputs and such inputs will target the creation and commercialisation of knowledge. It is within this circumstance that the government becomes the facilitator for networks, leading to form social innovation, incentivising firms and knowledge institutes and more so encouraging the flexibility of labour functionally.

The managed economy has been characterised with a national locus for its control in the policy function. However, at times the policy making institutes may be localised at regional level, this contrasts with the entrepreneurial economy where the decentralisation of policy is operationalized at regional and local levels. The need to understand the characteristics that are region specific is said to motivate the decentralised policy approach for the entrepreneurial economy as well as the job creation prerogative and growth.

Another important factor differentiating the two economies is related to the financing policy. The policy in a managed economy is targeted at financing institutions providing mainly liquidity and investment to existing companies since there is certainty in the outputs and inputs in the economy. Firms and banks have a direct link in growing the economy and this is different in entrepreneurial economy where uncertainty calls for various modes of financing. This therefore, calls for venture and informal capital markets to cater for high risk capital with the innovative firms. The homogeneous image of liquidity is said to lose its setting in this context as it gets coupled with advise, changing levels of involvement and knowledge taking place in the form of business angels, incubators, etc. (Audretsch, Grilo and Thurik, 2007). The understanding of an entrepreneurial economy is an important aspect in the context of entrepreneurial flair development. The entrepreneurial economy as depicted in this presentation is of great importance and can ameliorate the challenges faced by both small business as well as entrepreneurial ones to a certain degree. Small business will need to develop an entrepreneurial spirit in order to gain from an entrepreneurial economy; otherwise, their survival will be threatened by the new environment.

CONCLUSIONS

It is without doubt that most people have an understanding that the support towards small business is the same as the support to an entrepreneurial economy. This understanding occurs in the absence of the distinction ascribed herein towards the two economies in question: the managed and an entrepreneurial one. Obviously the benefits of an entrepreneurial economy are most enjoyable by the managed economy as well as the entrepreneurial one, yet the sustenance of such benefits; nevertheless, require an economic shift, from a managed economy to an entrepreneurial one. With the distinction in view can the policy makers or small business owners aspire for such a difference in their contexts? This will demand a relook through an appropriate study beyond the scope of this submission. It is particularly recommended that future research especially in developing economies investigate the proportion of a managed economy to an entrepreneurial one with a view to enhancing the latter.

REFERENCES


