



Revisiting the Factors Influencing Entry and Success of Entrepreneurship

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Abstract:

This paper provides a review of literature on entrepreneurship and related schools of thought. It examines the research findings relating to the effect of various macroeconomic and microeconomic factors on entry, exit and success of entrepreneurs. It also critically examines classification of Necessity Entrepreneurs based on low post-entry performance. The main contribution of the article is in identifying several research gaps in entrepreneurship literature which can be taken up as research problems by scholars of this field. This article proposes Exit Barrier as one of the factors influencing the entry to entrepreneurship.

Keywords: *Entrepreneurship, Necessity Entrepreneur, Performance, Exit Barrier*

1. Introduction

Alexander Pope's remark: 'Fools rush in where angels fear to tread!' has been much quoted in different contexts. In the case of entrepreneurship, there are uncertainties in many of the aspects of starting a new venture, such as conceptualizing a new idea, identifying a new market, investing one's hard earned savings, building a cohesive team, getting regular return, earning social and legal legitimacy and above all waiting for an uncertain period of time to be successful (Mcmullen and Shepherd, 2006). The fact is that rational individuals opt for entrepreneurship despite such uncertainties. Can we not therefore call her/his action a *Foolish Rush*? Stretching the argument a little further, would it be inaccurate to say, 'Entrepreneurship is the last refuge of the unemployed/ unemployable?' Low and MacMillan (1988) noted that there are limitless number of potential pitfalls associated with starting a new venture. So the individual's choice of and preference for entrepreneurship has to be very strong compared to the envisaged risk. On the other hand, the individual may have overconfidence, limited information availability, and inaccurate resource and risk estimate while starting a new venture (Bernardo and Welch, 2001; Forbes, 2005; Hayward *et al.*, 2006). But these can only be found out or validated at a later stage after the firm formation, when post-entry performance is reviewed. The pertinent question here is: can the post-entry performance be an indicator of strength or justifiability of one's *Prior-Intent*? Even with strong and right intention, the nascent entrepreneur acts with bounded rationality (Arend, 1999) and within resource constraints (Hurst and Lusardi, 2004) and hence tries to *satisfice*. Thus optimality attribution of choice for entrepreneurship based on post-entry performance becomes little unreasonable. If we consider the entrepreneur as an Adam Smith's economic man and hence rational, then no entrepreneur would like to limit the growth of her/his firm in the long run. The factors which limit the growth of a firm may, therefore, be taken as exogenous and not due to weak intention/justification.

At the same time the idea that *entrepreneurship* as a growth driver of an economy has kept gaining ground (Audretsch *et al.*, 2006; Koellinger and Thurik, 2012). Entrepreneurs cater to the societal need for employment generation and wealth creation. This is why various Governments incentivize nascent entrepreneurs to start new ventures. For example, the Government of India has

come out with Micro Small and Medium Enterprise (MSME) Act, 2006, with the objective of MSME growth and employment generation. Although entrepreneurship is of such vital importance not much clarity exists regarding the relationship between individual goal and societal goal of entrepreneurship.

This article would review the literature on the subject of entrepreneurship including antecedents and drivers of formation of a venture and find out gaps in the existing knowledge as well as throw up research questions for future studies. It would also discuss whether entrepreneurs take the cue from the micro and macro factors, and identify opportunity by being alert, or take a constructionist approach and create a collective reality which is different from his individual vision.

2. Methodology

Entrepreneurship as a field of study borrows ideas from economic theories of new firm formation, attitude and behavior from psychology, socio-cultural aspects from sociology and anthropology. Since entrepreneurship is intertwined with economic growth, relevant economic theories have been discussed in this paper briefly. The formation of a firm is ultimately a personal decision of the entrepreneur, therefore personal characteristics like innovativeness and various influences on her/him such as cultural, educational, prior job/entrepreneurial experiences and capital resources of the entrepreneur are the factors that could influence entry and success of entrepreneurs. The economic scenario at the time of decision making, such as unemployment, opportunity for entrepreneurs, regulatory environment, and corruption; and also industry characteristics such as entry and exit barriers, capital requirement and availability would facilitate or hinder the decision of entrepreneur to start a new venture and influence the chances of success. For this paper, initial level of search in different journals was made on the basis of the above factors influencing entrepreneurship. Selection of conceptual, empirical and theoretical papers was based on their relevance to the factors impacting entrepreneurship. Different recurring themes and factors were listed and examined. At the second level of selection, journal articles indicating dominant factors were investigated in detail. The final selection was made on the objective criteria of suitability for the theme of this paper. More than 150 papers from various research journals were selected for final review. Research questions were derived from antithetical views of different papers.

3. Entrepreneur and Economic Theories

The economic theories have dealt with the concept of firm without considering the entrepreneur as a person. In effect the theoretical firm is considered as entrepreneur-less (Baumol 1968). Richard Cantillon is the first to use the word entrepreneurship (Hebert and Link, 1989). Hebert and Link (1989) analyzed the development of the entrepreneurship literature and identified three distinct intellectual traditions. The first one is the theory of Creative Destruction, also known as ‘German Tradition’, developed by Von Thünen (1826) and Schumpeter (1911), in which the entrepreneur’s role is viewed as *creative destruction* or creation of market turbulence. The second one is the theory of Market Equilibrium, also known as ‘Chicago Tradition’ or ‘Neo-classical Tradition’, developed by Knight (1921) and Schultz (1980), which views the role of entrepreneur as *bringing the market to equilibrium from disequilibrium*. The third one is the theory of Market Opportunity, also known as the ‘Austrian Tradition’, developed by Von Mises (1949), Kirzner (1973) and Shackle (1982), which views the role of entrepreneur as *alertness to opportunity*.

Neo-classical economics has the following basic assumptions: that individuals have rational preferences for the outcomes they desire; that individuals derive utility from what they acquire, which they try to maximize; whereas firms are profit seekers which they try to maximize; and that people act with perfect information (Weintraub, 1993). Though these assumptions help easy understanding, validity of such assumptions can be contested on the grounds that these are unrealistic in nature and too simplistic compared to the real world situation.

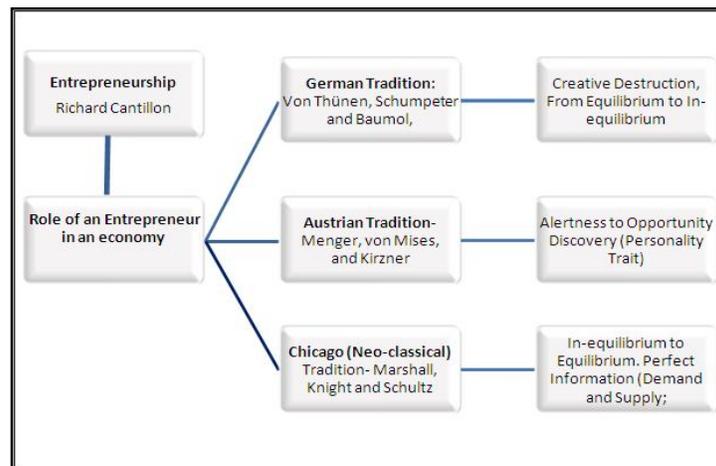


Figure 1

4. Culture and Entrepreneurship

What drives Entrepreneurship is not fully understood. Entrepreneurship may depend on various factors such as culture (Doepke and Zilibotti, 2013), personal traits and characteristics (Baum and Locke, 2004). Entrepreneurship is the individual quest and organized action initiated by the entrepreneur leading to socio-economic good. The offerings and the outcomes of entrepreneurial process are meant for benefit of the society (Van Praag, 1999). Socio-cultural legitimacy is therefore a pre-condition for entrepreneurship, or else the entrepreneurship itself would be considered destructive (Sauka, 2008). In this sense, culture gives meaning and acceptability to an entrepreneurial action. Culture shapes the societal preference for goods and services, even though it may not be strictly economical (Bowles, 1998).

Although entrepreneur as the principal actor, is given credit for creation of organization, often many other individuals are also responsible for creation and sustenance of the organization (Davidsson and Honig, 2003). The sum of the contributions of all these individuals is bigger than the parts. Friedrich Hayek's notion of *Spontaneous Order* indicates that a radical change is a non-deterministic evolutionary process (Boykin, 2010). Similarly Kirzner indicates that entrepreneurship is a competitive discovery process and not a predetermined one (Kirzner, 1999), and that entrepreneurial discoveries are instinctive. Mental models of entrepreneurs are translated as market offerings and profit outcomes depend on its acceptability.

Schultz points out that entrepreneurial action is solely responsive to prior context or disequilibrium (Schultz, 1975) whereas GLS Shackle, gives the perspective that it is *initiator* in nature (Batstone and Pheby, 1996). Hans Georg Gadamer argues that the mind is first social then rational (Lavoie, 1991). Language is acquired first as a socio-cultural process and then the faculty of reasoning is developed. So entrepreneurship, which reads the minds of the customers for survival, is more of a social process than an outright rational profit seeking behavior (Lavoie, 1991).

5. Personal Characteristics

Entrepreneurs differ in their characteristics like personal motivation, family tradition, previous work experience and financial status (Bhide, 1994). Research indicates that there are different dominant traits and attitudes like Need for Achievement, Power, and Independence could indicate entrepreneurial proclivity (Stewart *et al.*, 1999). Fear of job loss or frustration in earlier job also could propel towards self-employment (Hughes, 2003). The above along with a desire for better socio-economic status through social contribution constitute major intents (Vivarelli, 1991, 2004; Blanchflower and Meyer, 1994; Blanchflower and Oswald, 1998; Zacharakis *et al.*, 2000).

Need for independence, need to prove one's skill and competence are also important determinants for a new firm formation. The need for profit though important, is ranked below psychological motivations (Vivarelli and Audretsch, 1998; Arrighetti and Vivarelli, 1999; Vivarelli, 2004). It has been found that actual or impending unemployment is not an important motivation for new firm formation (Masuda, 2006). Few other studies (Thurik *et al.*, 2008; Johnson, 2005; Bates, 1990; Reynolds *et al.*, 2001; Vivarelli, 2007) indicated that *Escape from Unemployment* is the reason in about 15–20 percent of the cases. Such entrepreneurs are called *Necessity Entrepreneurs* as against *Opportunistic Entrepreneurs*, who wait for the right opportunity to take a plunge.

6. Educational Background

Education impacts entrepreneurship in dichotomous ways; while on one hand it increases the level of ambition, self-efficacy, confidence and skills necessary for entrepreneurs, leading to increase in the supply of entrepreneurs (Ghani *et al.*, 2011; Goedhuys and Sleuwaegen, 2000), on the other hand it favorably disposes entrepreneurs towards wage employment, increases the opportunity cost for entrepreneurs, and imparts the ability to appreciate entrepreneurial risk properly, wherefore the level of higher education is inversely related to the probability of self-employment (Vander Sluis *et al.*, 2005).

7. Human Capital

Human capital is the quantification of human capability to produce goods or services. Thurow (1970) says that the idea of Human Capital was introduced into economic analysis to provide for a measure to analyze man as a producer and to quantify his productive abilities. Human capital was defined as the productive skills, talents, and knowledge of an individual. It is measured in terms of the value of goods and services (price multiplied by quantity) produced by the person. Since consumption of what is produced is the ultimate goal of our economic system, production of goods and services in the above definition can be qualified by the goods and services which are consumed. In other words, the value of a person's human capital is the same as the value of the consumption goods and services produced, which can be directly or indirectly attributed to the person. This would mean that the value of human capital rises when the value of goods and services rises, and the value of human capital falls when the value of goods and services falls (Thurow, 1970).

Education plays a part in formation of human capital and also forms the part of entrepreneurial environment (Davidsson and Honig, 2003). New firms are formed where relevant skilled resources are available. Human capital spillover benefits setting up new firms, specifically such firms which are knowledge intensive (Mathur, 1999). It sets up a spiraling competition among firms and individual aspirants to create a self-sustaining environment (Audretsch *et al.*, 2005; Baptista *et al.*, 2011). Human capital helps entry, survival and sustenance of firms (Geroski *et al.*, 2010). The human capital factors such as education and relevant prior job experience of the entrepreneur contribute towards success of entrepreneurship (Baptista *et al.*, 2012). At the same time human capital may increase the opportunity cost, thus prevent the Necessity Entrepreneurs from entering. There is a caveat though, the knowledge acquisition process need not be only prior to entrepreneurial endeavor; the entrepreneur being alert to opportunity, would be in continuous pursuit of human capital build up. This factor can be strategized either through self-acquisition of knowledge or building up teams with requisite skill sets. During the initial days the entrepreneur would take up

multiple roles, but gradually build up a team to complement for any lack of skills through team building process. Lazear (2005) and Wagner (2003) found that entrepreneurs had studied diverse courses compared to those who were employed by others. The fact of being educated would shift the preference of entrepreneurs from informal to formal sectors (Van der Suis *et al.*, 2005). While floating a start-up, entrepreneurs would like to match the skills required for the start up with capabilities that they have. Thus education would motivate nascent entrepreneurs to stay away from subsistence level of entrepreneurship in favor of formal employment. Nafziger and Terrell (1996) used data from India, to find that the higher the level of education of founding entrepreneur, the shorter the lifespan of the firm. This would indicate the importance of external job opportunities in formal sector.

8. Family Background

Family background, support and encouragement have been found as key factors influencing entrepreneurship (Evans and Leighton, 1989; Blanchflower and Oswald, 1998; Hout and Rosen, 2000; Reynolds *et al.*, 2001; Chlosta *et al.*, 2012; Burke *et al.*, 2008). In a cross country study, Djankov *et al.*, (2007) found that the entrepreneurs' family members or childhood friends are more likely to be successful entrepreneurs. These findings suggest that entrepreneurs' family background and environment contribute significantly to the entrepreneurial decision.

9. Prior Job Experience

It has been pointed out that there is significant influence of previous job experience on entrepreneurship (Rider *et al.*, 2013). The ideation process is impacted by the knowledge gained from one's job experience. In the 'Knowledge Spillover' theory of entrepreneurship (Acs ZJ *et al.*, 2006), it is proposed that nascent entrepreneurs get most of their ideas from the their incumbent organizations. The entrepreneurs, who come out of an existing firm to start an organization, have advantages in ideation and operational understanding, and hence expected to exhibit better performance (Hirakawa *et al.*, 2010). Similarly a serial entrepreneur is more likely to have learnt from her/his past experience and can demonstrate better results (Gompers *et al.*, 2006). The serial entrepreneurs also benefit from their past network (Amaral *et al.*, 2011).

10. Unemployment

Actual unemployment or fear of unemployment may lead to new firm formation (Audretsch *et al.*, 2001). The state of unemployment combined with a long expected period of unemployment due to lack of sectoral job opportunities may contribute to decision in favour of entrepreneurship. Wang (2006) found that unemployment increased the number of start-ups in Taiwan, whereas Santarelli and Tran (2011) could not find any significant impact of unemployment on formation of new firms in Vietnam. Andersson and Wadensjo (2007) found that income of an entrepreneur varies inversely with the number of days of unemployment. Entrepreneurs with no previous employment experience are more likely to have no or few employees (Acs and Armington, 2004).

It was indicated by Startiene and Remeikiene (2009) that the duration of unemployment period also impacts probability of opting for entrepreneurship. Individuals with low duration of unemployment are more likely to take up new firm formation than individuals with comparatively longer period of unemployment.

11. Capital Availability

New firm formation requires capital. Entrepreneurs can have capital from their own savings, from family and friends or from institutions. But the initial capital has to come from close sources. Financial constraints can have impact on the new firm foundation (Fazzari *et al.*, 1988). One-time financial gain increases the possibility of new firm formation (Hurst and Lusardi, 2004; Kan and Tsai, 2006; Holtz Eakin *et al.*, 1994; Lindh and Ohlsson, 1996). On the other hand, entry to entrepreneurship on sudden gain of wealth could indicate that adequate finance is generally not available for a start-up business (Parker, 2004).

12. Savings and Credit Availability

Entrepreneurs mostly start new firms with their own savings. National Knowledge Commission (NKC), India, report on entrepreneurship (NKC GOI, 2008) reveals that 63 percent of the sample indicated that they were self-financed and that availability of savings or seed capital makes the new firm formation faster. The seed money can come from the entrepreneur's own savings or close relatives. Subsequently with the growth of the organization, credit needs grow and becomes crucial for growth and sustenance (Xu, 1998; Becchetti and Trovato, 2002; Carpenter and Petersen, 2002; Aghion *et al.*, 2007). But at the same time, role of credit availability or absence thereof seems over-emphasized. The NKC report indicates that several sources of finance are open to entrepreneurs, such as: Venture Capital, Angel Investors, State Finance Corporations and Banks. Although entrepreneurs generally believe that it is difficult to get bank finance at the start-up stage, 61 percent of those applied for bank credit, actually received it (NKC GOI, 2008). Researches elsewhere also indicate that managing growth can come from appropriate cash management overcoming the borrowing constraints (Parker, 2000; Hurst and Lusardi, 2004). Credit constraint may not be the problem, but may be the symptom of the problem internal to the operations of the firm. Banks indicate lack of proper documentation, accounting and control procedures as reasons for which they are not able to extend the credit (Yadav, 2013). However for very small operations, as in rural entrepreneurship cases, micro finance would prove beneficial (Yunus, 1999, 2002; Fogel *et al.*, 2011).

13. Location and Sector

Locational advantages can also be a factor influencing new firm formation (Dahl and Sorenson, 2009). Specific local/ sectoral resource availability including the labor market, the location of the founder also seems to play an important role, especially the geographical area and sectors where the founders were previously located/employed (Vivarelli, 1991; Cressy, 1996; Arrighetti and Vivarelli, 1999; Shane, 2000; Klepper, 2001; Helfat and Lieberman, 2002; Stam, 2007). This has been attributed to the fact that the entrepreneurs would have gained deeper understanding of the business and the relationships in the same sector and same geography in which the firm operates. This develops into a locational and sectoral inertia and can indicate persistence of entrepreneurs in the same location and sector (Fritsch and Mueller, 2007). If the new firm is located where the founders lived for a long time, then the firm performance is better (Dahl and Sorenson, 2012). The locational advantage, also called *Son of the Soil* or *Rooted Entrepreneur* could be attributed to better information gathering capability, better resource gathering, and management comfort due to familistic support and network support. This may however be validated in future studies. The same location and sector of the new firm indicates that the entrepreneur is making a wage substitution in the same geographical area and in the same sector (Creedy and Johnson, 1983; Foti and Vivarelli, 1994; Geroski, 1995; Reynolds, 1997).

14. Local Wage

Environmental factors such as expected profit, availability of skilled labor, entry barriers, supplier's cooperation etc. are also important factors for an entrepreneurial venture to take shape. Low local wages would give a cushion to the fluctuating income of entrepreneurs as well as revenue expenses to be incurred by the entrepreneurs, in contrast to higher local wages (Highfield and Smiley, 1987; Hamilton, 1989). Low wages would mean that the Rooted Entrepreneur would have a lower indicative opportunity cost. But, if the supply and demand locations are spatially separated, then the choice of a location by the entrepreneur would indicate that the entrepreneur has opted for lower cost location, where the costs include wage cost as well.

15. Regulatory Environment

Past research indicates that infrastructure, regulatory, and legal environment impact the performance of the new firm (Klappera *et al.*, 2006). Similarly non-transparent labor-market rules, tax laws, bureaucratic delays, bankruptcy laws also adversely impact the performance of an entrepreneur (Sleuwaegen and Goedhuys, 2002; Beck *et al.*, 2005; Chen and Puttitanun, 2005; Lee *et al.*, 2011). Kar and Subudhi (2014) have tried to assess the impact of policy incentives on entrepreneurship in the state of Odisha in India and found that despite policy incentives entrepreneurial firm formation in the form of MSME has gone down. Many studies link variables like firm growth rate to the investment, initial firm size, and employment growth (Coad and Tamvada, 2012). Initial size of the firm and firm growth rate has been found to be negatively correlated, in case of Indian computer hardware industry (Das, 1995).

16. Corruption

Corruption can prove detrimental to the growth of entrepreneurship by its adverse financial impact, gate-keeping, and rent seeking nature (Aidis *et al.*, 2012). Corruption can obstruct entry and growth as evidenced during '*license raj*' or *rule of license* which was prevalent in India before 1991. During this period one could not start a business in India without a license and the license would be issued at the discretion of the Government, often on payment of bribes (Parthasarathy and Mohan, 2013; Ayyagaria *et al.*, 2014). Besides bureaucratic corruption, corruption in several other spheres can also impact entrepreneurship, for example, corruption in financing institutions can limit the firms' access to credit (Beck *et al.*, 2005).

17. Expatriate Entrepreneurs

Entrepreneurship is generally believed to be an individual trait. But research has shown that there is a spatial limitation to entrepreneurship or in other words those entrepreneurs who are successful in one circumstance may not be successful in another set of circumstances (Hiebert, 2002).

18. Innovation

Innovation presupposes expertise, and persistence on the part of innovator. It is found that innovation leads to entrepreneurship premium (Cefis and Marsili, 2006), and that an innovator entrepreneur has an increased survival probability. Innovation process of entrepreneurship is a radical change, and is a competitive process, so this process is impacted by various contradictory, multidimensional thoughts and actions. Innovation though can be sector specific and depend on opportunity available (Cefis and Marsili, 2005).

However, innovation may not be the most dominant reason for which a new firm formation takes place. Majority of entrepreneurs or new firms are imitators (Schumpeter, 1934, 1939) or *Replicative Entrepreneurs* (Baumol, 2005). Innovation can add to the risk of business model (Caggese, 2012) as it would make it a different business for which a different business model might be suitable. However, innovation leading to *Innovation Premium*, *Better Performance*, and *Survival* have been indicated by many research findings (Coad and Rao, 2008; Altindag *et al.*, 2011; Corsino and Gabriele, 2011). Innovation may not be only about a new product. It can be with regard to the process/ target segment/ branding etc. Mere adaptation has also been taken by some researchers as innovation. The only distinction between the two is that adaptors are the individuals who *do things better* whereas innovators are those who *do things differently* (Kirton, 1976).

19. Entry Barrier

Entry barriers can be thought of as some form of hurdles set for new entrants by the existing structures and the existing players to dissuade them from entry. Entry barriers could lead to increase in the amount of initial investment required to achieve Minimum Efficient Scale (MES), although that could be different for different sector or industry (Geroski and Schwalbach, 1991). Entry regulations by the bureaucracy (Djankov *et al.*, 2002; Klapper *et al.*, 2006), expenditures on R&D and advertising expenses could also act as entry barriers endemic to the sector or industry (Sutton, 1991; Arauzo Carod and Segarra Blasco, 2005). Analysis of Global Entrepreneurship Monitor (GEM) micro-data shows that adverse entry regulation, unfavorable labor rules, loose contract, and enforcement hampers entrepreneurship (Ardagna and Lusardi, 2010).

Similarly, lack of adequate infrastructural support in terms of transportation, communication, energy, water, and information technology support have been identified as entry constraints as well as growth constraints for entrepreneurship (Aterido *et al.*, 2009; Goedhuys and Sleuwaegen, 2010; Ghani *et al.*, 2011b; NKC GOI, 2008).

20. Exit Barrier

Fundamental difference between entrepreneurship and wage earning include *Ease of Exit*, which determines the *Expected Duration of Continuance*. Petrakis (2009) posits that depending on the entrepreneur's expected Ideal Duration of Continuance, s/he commits entrepreneurial resources. When the resources invested in an entrepreneurial venture is more, the duration of engagement in the entrepreneurship is expected to be more. But the ease with which one can exit from a venture is not the same as the ease which one can change a job. Barriers to exit get created in terms of high investments, high redundancy costs, high contractual costs, and many other closure costs (Ucbarsaran, Shepherd, Lockett and Lyon, 2013). Another important aspect of exit is the expected gain or loss on exit. If the expected gain is more or expected time of wait for successful exit is short, then the entrepreneur persists. If the job market discounts or ignores the entrepreneurial experience of an entrepreneur in favor of consistency and continued experience of a person in a salaried job, then the entrepreneur would expect a low probability of getting a job and hence would find it difficult to exit. High exit barrier arising due to lack of an alternative vocation would force the entrepreneur to persist and experiment even when there is poor performance. This hypothesis may, however, be tested in future studies.

21. Entry Mistakes

Success as well as failures in entrepreneurship has been studied and some failures have been attributed to *Mistakes related to Entry* (Cabral, 1997; Geroski and Mazzucato, 2001), which causes early failures. Such entry mistakes are attributed to entrepreneurial confidence, over optimism, and illusion (Cervellati *et al.*, 2013). Early failures have been attributed to the entrepreneurs lacking the willingness and seriousness towards entrepreneurship. Many fence sitter entrepreneurs are essentially disguised unemployed and are likely to be the first to exit (Earle and Sakova, 2000). Hence such ventures are doomed to early failure. The demonstration effect of entry mistakes and exit barrier may adversely impact the entry of other nascent entrepreneurs as well.

Although attributing early failures to lack of willingness and seriousness on the part of entrepreneurs seems apparent, many questions remain unanswered. Is exiting entrepreneurship equivalent to changing one's job? How easy or how difficult is it to get into or get out of entrepreneurship? Is the transition smooth? What happens to the entrepreneurial attitudes and characteristics, existing prior to entry? In one interview (NKC GOI, 2008), a feedback was given that the 'Entrepreneurs are virtually unemployable.' If it is true, even partly, then it makes a fundamental distinction between unemployability due to lack of skills and unemployability due to lack of conformance to organizational silos.

It would therefore imply that getting into entrepreneurship needs a fundamentally different mind frame than getting into a profession or job. Unless it is destructive entrepreneurship aimed at duping, entrepreneurs would generally have a long term orientation towards the firm they found. This is because the expected gestation period to gain scale efficiency is longer and the entrepreneur would persist anticipating success at a future date. Moreover, early exit would result in non-recovery of sunk cost. Even though the technology and process intervention have brought down the time required for organizational founding, the expected time required to achieve a successful exit would be longer than that of a job. Therefore, in many cases the duration of entrepreneurial endeavor would be more than the average duration of a job. Secondly, even though the firm exit process has become less cumbersome, it is nowhere as easy as submitting a resignation. If factors like expected time before exit, commitment, resource investments, ease of career switch, and alternative choice availability are taken together, then necessity entrepreneur would less likely to be categorized as a quitter.

22. Entrepreneurship Metrics

Many scholars have indicated that entrepreneurship means establishing a new firm or organization. Most common measurement of entrepreneurship is the number of new firms that are formed, which is called the gross formation. The net formation is the net addition to total number of firms or in other words, excess of new formation over exit. Thus the specific events of formation and closure are taken into account for measuring entrepreneurship. Ascertaining these events of formation or closure is difficult as these are actually processes spread over a period of time and do not happen overnight.

Taking cognizance of registered firms for measurement of entrepreneurship would include or exclude firms under process of exit/entry and give erroneous picture. Small office home office and other unregistered firms also get excluded, if only registered firms are considered for measurement of entrepreneurship. Moreover, if entrepreneurship is measured by the number of organizations, it would ignore the number of individuals creating it.

If we measure entrepreneurship, by counting the number of entrepreneurs and not the firms as the unit, then the problem of determining occurrence of the events disappears, but certain other problems arise. For example, in the case of *Proxy-Entrepreneurship* the actual entrepreneur will not be identified and in the case of multiple entrepreneurs coming together to float many firm, they could be counted many times.

Global Entrepreneurship Monitor (GEM) data shows that there is a relationship between the rate of formation of entrepreneurial firms and stage of development of the economy and that the curve representing the relationship is *tick mark* shaped (Reynolds *et al.*, 2001; Wennekers *et al.*, 2005). Poor countries show higher level of self-employment because of lack of job opportunity. With economic development, job opportunities increase leading to decrease in self-employment, explaining the downward line portion of the *tick mark*. However, with the increase in demand, resulting from economic development the scope for opportunity based entrepreneurship increases. This explains the upward line portion of the *tick mark*. Thus the link between economic development and entrepreneurship is complex and multidimensional. The entrepreneurs of pre-development economy must reorient themselves with structural changes in the economy. The exact relationship between micro level entrepreneurship with macro level parameters is therefore not very clear.

Similarly, problems arise in measurement of closures. The event or state of closure of a firm can be defined in many ways. Closure could be defined as stoppage of operations, lower than sustainable level of operations, default in repayment of debt, sell off, or formal dissolution of organization. Many times, firms are found to spring back to life after closure/ halting of operation, if the firms have not been dissolved formally. However, stoppage of operation, lower than sustainable level of operations, default in repayment of debt etc. could be taken as early signs of closure. It could be a matter of debate if sick firms should be treated as running or exited. Some sick firms could exit within a short period, whereas those with long term orientation are more likely to persist by restructuring or downsizing themselves, and are less likely to exit in a hurry. This would be the case with entrepreneurs facing a huge sunk cost or high exit barrier.

23. Discussion: Are Necessity Entrepreneurs Necessarily Scum?

'Necessity is the mother of invention' so runs the adage. Many a times invention is a response to a necessity resulting in improvisation of the initial position thereby increasing the probability of survival. A fundamental research or a new invention or quantum jump in technology, which normally results out of funded R&D activities, is not within the means of most of the entrepreneurs. Therefore, such unrelated invention by Necessity Entrepreneurs is difficult to expect.

Secondly *Necessity Entrepreneurs* as a group are thought to be the lowest rung in the skill ladder (Block and Sandner, 2006). This would be true, when adequate employment opportunities are available and there exists no discrimination against her/him for such opportunities, and yet the person remains unemployed. These two pre-conditions may not hold good in an economy which is not able to generate adequate number of jobs with fair compensation. Hence, a person with a fair amount of skill may still remain unemployed. The attribution of poor of performance of *Necessity Entrepreneur* to lack of her/his skill would not be valid in such situations.

Thirdly, given the fact that entrepreneurship is a rare and challenging task, it is less likely to be taken up, by those who are faint hearted. Therefore, only those among the unemployed who have some amount of risk taking ability would opt for entrepreneurship. But any enterprise would need reasonable amount of fund for successful operation. The necessity entrepreneurs are less likely to have provided for adequate fund, and this would have inevitable impact on business performance.

Fourthly, entrepreneurship remains the sole option for the *Necessity entrepreneurs*, since they would have already exhausted the employment option. It can therefore be argued that it will be very difficult for them to exit, contrary to their fence sitter image. This hypothesis however needs to be validated in future research.

Entrepreneurship is called *Progressive Form of Entrepreneurship* when growth occurs and *Regressive Form of Entrepreneurship* when there is not much of growth. This way of classification, assumes that there must always be growth. But for startup organizations, growth benchmark is set by the entrepreneur's individual consideration of sustainability and therefore having a pre-determined number for growth rate is improper. From the research perspective, whether the observed growth rate of a firm during different time periods would conform to its classification as, *Progressive* or *Regressive*, form of entrepreneurship becomes an interesting question. Necessity entrepreneurs, though generally perceived as unsuccessful, there are no evidence to suggest that they are less successful than opportunity entrepreneurs' (Block and Sandner, 2006). Things like dealing with business cycles, learning curve of the new firm, scaling up process, and development of sustainable revenue model etc. take time. Organizations take considerable time before they establish growth. Process view of entrepreneurship (Baron and Shane, 2008) would not be consistent with these classifications. Post-facto comparative performance review and ex-ante branding of the entrepreneurial effort as *progressive* or *regressive* would therefore be inappropriate. Similarly, there could be arguments that *regressive* ones show more resilience. Innovative *Opportunity Seeker* may not build organization to the extent being *opportunistic*. Once a new firm is formed after due opportunity identification, it rests upon team dynamics to reestablish opportunities continually and work towards identified shared goal. Rarely is entrepreneurship one idea pre-conceived and carried out post creation of the organization in the original form.

It has been suggested that when there is economic growth leading to more employment opportunities, the *Necessity-Entrepreneurs* would get employed. It has been argued that necessity entrepreneurs are not interested in innovation or scaling up but interested only in self-employment and they are more likely to be the candidates for switching to employment during an economic boom.

Thus the net growth of entrepreneurs would fall gradually, bottoming out at the inflection point. After the inflection point, only *Opportunistic Entrepreneurs* would take off, and there would be a positive linear relationship of that with economic growth (Carree *et al.*, 2007; Acs, 2008; Acs *et al.*, 2008a). However, as discussed earlier, studies show that entrepreneurs are virtually

unemployable as they prefer to work in their own way (NKC GOI, 2008). Therefore, the unemployed status of an entrepreneur is because of her/his own choice, arising from a preference for a high degree of independence. The contention that *Necessity Entrepreneur* would take up employment during economic growth may, therefore, not be automatic.

The Tick shaped curve could also indicate that some of the entrepreneurs, who were doing badly, find an opportunity to exit successfully in an economic upturn. They may consider the exited venture a bad decision and may reenter at a later date when they find the opportunity to be right. Since the formation, transformation and exit, are not static, the same entrepreneur can come out of a sticky position and reenter with an innovation when the context is favorable. At the same time, innovation not being a one-time state of an entrepreneur, the Necessity Entrepreneur may show more persistence and become an innovative one, over a period of time to remain in business.

Secondly, it is quite established that failure of new firms is quite high in the initial years. An analysis of data pertaining to 10 OECD countries indicate that about only 40–50 percent of the new firms survive for more than seven years (Bartelsman *et al.*, 2005). Researches elsewhere indicate that about 50 percent of new firms exit within the first five years of their existence (Dunne *et al.*, 1988, 1989; Reid, 1991; Audretsch and Mahmood, 1995; Geroski, 1995; Mata *et al.*, 1995; Audretsch *et al.*, 1999a; Johnson, 2005). However it would be incorrect to claim that all the firms, which close down, belong to Necessity Entrepreneurs only. It is a common experience that many bigger corporations also exit. Therefore *closure of a firm* would not be the right determinant for classifying the entrepreneurs as Necessity Entrepreneur or not.

Thirdly, the infant mortality of new firms is found to be correlated with entry rates. Geroski (1995) pointed out that the mechanism of displacement is the most obvious consequence of entry which affects new firms severely (Baldwin and Gorecki, 1987, 1991). Research has indicated positive correlation between entry and exit rates (Bartelsman *et al.*, 2005). It would be plausible to assume that all the new firms, whether formed by necessity entrepreneurs or opportunity entrepreneurs, would have equal likelihood to be affected in such situations. Future study may find out if there is any distinction between the reasons for exit by *Necessity Entrepreneurs* and that of *Opportunistic Entrepreneurs* and if the rates of their exit are different.

An exit by an entrepreneur would affect her/him to an extent determined by whether it was a successful exit or not. At the same time, market as a conceptual entity would also undergo changes. Obviously, industry-specific requirements including economy of scale and the innovativeness (Audretsch, 1991; Agarwal and Audretsch, 2001) significantly impact entry, exit, and survival of new firms. As an example, in the industries where Minimum Efficient Scale (MES) is high, smaller entrepreneurial firms are likely to incur higher costs, and therefore, go out of business within a short period (Lotti and Santarelli, 2004).

Undoubtedly market *churning* implies that the firms with suboptimal scale or suboptimal strategy would not be able to penetrate the market and therefore would remain only in the periphery with a low survival probability. The findings that 50 percent of the firms survive after 5 years (Dunne *et al.*, 1988) would mean that the higher the number of new firm entry, the higher would be the number of firms that would survive. But such argument, which would mean that an augmentation in the number of firms would result in a higher number of surviving firms, has also been contested. Hobday and Afonso de Barros Perini (2009), show that higher formation rate or higher gross entrepreneurship may indicate or may be result of undesirable social condition.

It is obvious that *Schumpeterian Innovative Entrepreneurs* would coexist along with *Necessity Entrepreneurs* (Baumol, 1990). Whereas innovative entrepreneurs innovate and then take up the building of the organization, *Defensive and Necessity Entrepreneurs* get into entrepreneurship because they need immediate income to survive. It also has been pointed out that *survival-driven* self-employment is predominant in those countries where there is lack of employment opportunity (Naude, 2009, 2010).

Bhide (1994) has indicated that the entrepreneurs use different ways to weed out ideas that do not work, out of the multitude of all possible ideas. He has quoted past studies showing that about 71 percent of entrepreneurs get ideas from their previous employment, and about 20 percent get ideas serendipitously; whereas only 4 percent get ideas from systematic research for opportunities. Moreover, 41 percent of the entrepreneurs did not have any business plan, 26 percent of them had only rudimentary business plan, and only 28 percent prepared their complete business plan. He suggested that all the entrepreneurs have exceptional ability for execution of their ideas and there is nothing that could be called an ideal profile of an entrepreneur. While entrepreneurs start with an idea, and follow the business as their passion, they get leverage from the changes in the external environment. There is no standard analytical framework or check-list, that would be useful for all the entrepreneurs, but they are smart enough to recognize mistakes and change their strategy, if the context so demands. But it is a matter for future research to find if they recognize their mistakes in time and if they use right metrics to arrive at the conclusion that it was a mistake.

24. Means and Ends: The Performance Dimension

There are difficulties in measuring performance of an entrepreneurial firm. Understanding the performance is particularly difficult for a new born firm. The set of criteria, which is used for measuring the performance of an established firm should ideally not be used for a start-up firm. During the initial years, when the firm is building its base in terms of product or service, customers, assets, employees, and supplier/ dealer relationships, it is virtually incorrect to measure its performance with a set of financial parameters similar to that of an established firm. The new firm is formed with identification of a gap in the competitive space. The choice of a particular strategy and persistency with experimentation decides the course of the new firm. Hence the parameters adopted to measure the performance of an organization needs to be aligned to its strategy and such measures can't be only financial in nature. In such cases use of a *Balanced Scorecard* (Kaplan and Norton, 1992) has been advocated by many researchers. According to Santos and Brito (2012) the measure should include first order measures like profitability, growth, satisfaction of customer and employees, and social and environmental performance. Dess and Robinson (1984) argue that for

privately held companies the accounting procedures for different forms of organization is different, owners compensation during the initial years are more difficult to account for, comparison across firms in absence of standardization of practices becomes meaningless, and above all, the data is highly confidential in nature.

Although organizational performance can have measures which are oriented towards the stakeholder goals and resource utilization, the entrepreneur finds it challenging to comprehend the myriad details regarding the method of measuring it. S/he may simplify the process by having her/his own way of assessing the progress of organization. The actual method of measurement may reduce to a sense making process or a simplified way, which is then used by the entrepreneur. In entrepreneurial organizations, the structure, methods, and controls of organization performance parameters are highly centralized and would lack classificatory details.

Cooper (1993) argues that predictor of firm's performance is important for entrepreneurs, consultants as well as funding organizations. He identifies the challenges for finding a predictor for firm's performance, to be the following: heavy dependence of performance on developments in the business environment, risk concentration on a few products or services, key resource constraints, and narrow market. These factors cause wide variance in performance, so such factors are at best inconsistent predictors. Other challenges include the personal agenda and values of entrepreneurs, which may be non-economic in nature. Huge differences in scale of operations and market potential present another set of challenges.

25. Implications and Research Directions

The discussions in previous sections of this article raise many pertinent issues. Many factors have dichotomous influence over entrepreneurship, no personal characteristics has been identified which is valid only for entrepreneurs, and entrepreneurial characteristics that have been identified are also valid for other leaders. Moreover, the entrepreneurs also develop themselves with experience gained over time. All these add to the complexity of the phenomenon. Research has shown that successful entrepreneurs are less common than unsuccessful ones. But, most researches are based on success stories rather than failures. In whatever research has been done on entrepreneurial firms, failure is generally attributed to entry mistakes or turbulence, which would imply that the successful ones made the right choice at the beginning and did not face any turbulence. Intuitively such assumptions could be true only in extreme cases. In many cases the successful entrepreneurs might have adapted or changed course soon after an initial entry mistake. It remains for future research to establish which of the two is more probable and by what margin.

While the macro economic conditions impact entrepreneurship, their impact on the decision of an entrepreneur regarding the timing of entry as against the timing of the entry based on individual preparedness also needs to be studied. Another area of future investigation would be whether a nascent entrepreneur chooses the scale of operation a priori or based on his capital availability.

Past studies have shown that innovation is fundamental to entrepreneurship. But whether innovative ideas pre-exist in entrepreneurs or it develops over a period of time after entry is also an important question.

Many times a mid-course correction, after an imperfect entry may be more beneficial. Future research may determine what type of entrepreneurial characteristics would be more likely to favor an exit rather than a mid-course correction and which of the two tendencies is more likely to lead to success. It is an accepted fact that entrepreneurs exit when an exit appears more attractive to them than continuance. And thereafter, the entrepreneur does not think of persisting any further. This raises the question, whether the intention with which s/he started the enterprise was no more important. It also needs to be found out whether there is any distinction between *Opportunistic Entrepreneurs* and *Necessity Entrepreneurs* with regard to the reason of exit.

It is noticed that in many developing countries, people are generally averse to entrepreneurship. Future study may determine, whether this inhibition is predominantly due to lack of capital, cultural influence, or poor opportunity in the economy.

In many situations it is found that entrepreneurs enter a particular business in herds lured by sudden lucrativeness of that business (such as mad rush at the time of rail road boom/ dot com boom), but later on find the opportunity vanished. Whether the entrepreneurs who enter a business due to their own conviction and those who enter due to lure of quick financial gain, have different characteristics and different probability of success need to be ascertained by future research.

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