

## Catalysts to early state entrepreneurial activity

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### Abstract

This paper aims to analyse the influence of necessity-driven entrepreneurial motive and opportunity driven motive on total early-stage entrepreneurial activity (TEA). Data were collected from the World Bank's archive of entrepreneurial activity for the two independent variables – necessity driven entrepreneur and income increasing entrepreneurship for nineteen years, and for the dependent variable total early state entrepreneurial activity. The paper applied the multiple regression statistics at 5% alpha level and data were analysed for two BRICS countries – South Africa and Brazil. Results show that out of the two independent variables, the income-increasing motive proved statistically significant at a p-value of 0.0001 toward enhancing the level of total early-stage entrepreneurial activity (TEA). This significant relationship only holds for Brazil, none of the independent variables proved significant for South Africa. These findings provide vital policy implications for re-planning the early-stage entrepreneurial financing policy based on training and monitoring. The paper provides an agenda for further research to study other African countries in a comparative approach to unravel more insights regarding the emergence growth and success factors for early-stage entrepreneurs in other African countries.

**Keywords:** Catalysts, state entrepreneurial activity, South Africa.

### Introduction

Economic growth of a nation draws significantly from factors that pervade public and private business-oriented policies and activities. No country in the world can provide enough employment and grow the economy to a productive level without the contribution of entrepreneurs. Therefore, entrepreneurship businesses across the world are regarded as one of the vital tools that offer the desired opportunity to achieve sustainable economic development goal number 8 – which aspires for an employment for all by the year 2030. Entrepreneurs contribute a great deal to every country's economic growth – especially in advanced and some emerging economies such as China. To this course of action, governments are striving to nurture and grow entrepreneurial opportunities, and to support such businesses from survival to maturity level and to keep up with the trajectory of supporting employment and economic growth. Given the empirically proven relationship that subsists between entrepreneurship, employment, and economic growth, it becomes very pertinent to explore factors that catalyse early-stage entrepreneurial activity. Finding such

factors will contribute immensely to further research, practice and toward improving governments' policy formulation to boost activities that may elevate the growth level of entrepreneurial businesses and the attendant of employment by this sector.

Youth employment is a vital booster of inclusive economic transition, economic growth, and private sector development (Boughzala, 2013; Kiiru & Barasa, 2020). Early stage entrepreneurial activity is the population percentage of the youth that gets self-employed by engaging in entrepreneurial activity (World Bank, 2021). The earlier the youths learn and get involved in entrepreneurship activity, the more these early stage entrepreneurs mature to a sustainable stature and survival. This is because the initial factors that trigger entrepreneurial activity at early stage does catalyse the eventual expansion of the entrepreneurs (Basu & Goswami, 1999). Given therefore the importance of early-stage entrepreneurial activity on survival of entrepreneurs, economic policy makers are interested in understanding the factors that lead to the nurturing of early stage entrepreneurial activity so that such factors can receive effective support by the government.

### **The Problem of Paper**

Policy makers across many countries and researchers are interested in research that provides insights for growing entrepreneurial activity – especially growing from an early stage. To this end, scholars are investigating factors that spur early state entrepreneurship; these include amongst others: early stage entrepreneurial ambition for growth (Verheul & Van Mil, 2011), role models for early stage entrepreneurship (Bosma, Hessels, Schutjens, Van Praag & Verheul, 2012), and obsessive passion in early stage entrepreneurship (Stroe, Wincent & Parida, 2018). These exiting research strive toward understanding early stage entrepreneurs' behavioural and/or psychological disposition; a gap still exists in the literature on what catalyse the push action in early stage entrepreneurial activity. This paper bridges this existing gap in the literature and positions two main factors that may catalyse early-stage entrepreneurial activity.

### **Objective of the Paper**

In alignment with the paper's problem, the objective of this paper is to use empirical analysis to appraise the catalysts to early-stage entrepreneurial activity. Accordingly, the paper aims to provide an analysis that shows the influence of necessity-driven entrepreneurial motive and income or opportunity driven motive on early-stage entrepreneurial activity. It also assesses which of these variables have a strong effect on entrepreneurial early-stage activity. It thus offers one of the first such empirical analysis that uses a global data.

### **Theoretical framework**

#### **Action regulating theory in entrepreneurship**

The action regulating theory is one such view that seeks to comprehend how people regulate their actions in order to achieve their set objectives particularly in routine environments and also in novel situations. Various scholars posit that action is

an important construct of entrepreneurship (Baron, 2007; Bird & Schjoedt, 2009). Frese (2009, p.1 ) states that “any theory of entrepreneurship should use active actions as a starting point - entrepreneurship is the epitome of an active agent in the market”. The fundamental idea of the action regulating theory is to determine how activity processes are regulated. Specifically and relating to entrepreneurship, the theory integrates the internal cognitive process of the entrepreneur together with the external activities. Thus, the actions by the entrepreneur are critical steps in theorising about the concept of entrepreneurship (Mcmullen & Shepherd, 2006). Therefore, entrepreneurial activities cannot be excluded from the entrepreneurship theories because as an evolutionary process entrepreneurship actions are proactive in nature and in their process of ensuring the establishment and survival of a business (Gielnik *et al.*, 2014).

The Action Regulating Theory also helps to explain certain phenomena relating to psychological action strategies or disappointments and mistakes that an entrepreneur may have experienced. It is also used to determine intervention strategies. Action theory may be regarded as an individualistic theory however at the same time nullifying the view that isolate individuals who are sufficient unit of analysis. Emphasising that any analysis done need to include cultural as well as technical aspects of human actions (Yasnitsky, 2011). The action theory as elucidated here applies more particularly to the initial stages of the established business mainly as a result that an entrepreneur plays a fundamental role in influencing the activities of business. The action regulation theory is thus aligned with Schumpeter’s theory propagating that entrepreneurship is an active approach process of an entrepreneur (Schumpeter, 1935). Further, it accentuates the significance of action plans that regulate the movement from goal intentions to action. As a result, action planning is paramount as it helps nascent entrepreneurs to focus and exert more effort to specific identified activities. Thus enabling the entrepreneur not to expend energy in implementing and executing unnecessary activities or activities in an inefficient order (Delmar & Shane, 2003).

There are three fundamental aspects that serve as the building blocks of action as a goal-oriented behaviour of the entrepreneur and include sequence, structure and focus (Frese, 2007). In relation to sequence in the entrepreneurial process, the entrepreneur needs to set goal, conduct environmental mapping, develop a plan, monitor the plan execution and ultimately ensure effective feedback process (Frese & Fay, 2001). Without these actions/activities the purposed business initiative by the entrepreneur may fail dismally. The action structure relates to the hierarchical cognitive regulation in behaviour set from the higher level to a lower level. The hierarchy is critical because it enables achievement of institutional goals. The higher levels of hierarchical cognitive regulation behaviour is more conscious, thinking oriented, and more general, while the lower levels are more routine type, specific and more often physical involvement. While the regulatory focus differentiates the areas of task and contextual performance, and the role of the self (Delmar & Shane, 2003).

## Literature review

### **New Product and Early Stage Entrepreneurial Activity**

The entrepreneurial activity is regarded as one of the key and critical engines of the national economic growth that enables the creation of new enterprises, stimulation growth of the existing ones and ultimately contribute to employment (Hernández-Sánchez *et al.*, 2019). Various research studies have indicated that there is a relationship that exist between national economic development and the ability to establish new businesses and employment (Álvarez *et al.*, 2014; Amorós *et al.*, 2016). The total early-stage entrepreneurial activity (TEA) is an important indicator for constant consideration. It is regarded as the percentage of 18-64 year old population that is either a nascent entrepreneur, or owner of a business (Bosma *et al.*, 2007). The purpose of this measure, which is published by the Global Entrepreneurship Monitor (GEM), is to measure two main dimensions: entrepreneurial behaviour and attitudes of individuals and the national context. For example, in the European Union the entrepreneurial activity is regarded as the backbone of various member states accounting for 99% of all businesses, 85% of new jobs and also two thirds of total employment specifically in the private sector (Hernández-Sánchez *et al.*, 2019). Therefore, it can be considered that entrepreneurship is the key for the improvement of the national economy. When a country has a high entrepreneurship rate consisting of high quality entrepreneurs, it logically results in high production companies, thus playing a critical role in societal development. It is noted that national competitiveness promotes entrepreneurs to be more innovative thus leading to the development of new products and services that contribute to the improvement of the quality of life. To note Schumpeter's (1934) theory of creative destruction indicates that entrepreneurs have a way of distorting the market balance when they introduce new products, through combinations, or by innovations. Often times entrepreneurs develop new technologies to achieve it. Notably, entrepreneurs innovate and the resulting effect is that few productive firms are driven from the market thus advancing the production frontier. Therefore indicating that innovation becomes an essential contributor of economic growth (Bosma *et al.*, 2007).

### **Necessity-Driven Entrepreneurial Activity**

Necessity-driven entrepreneurship is considered to be the establishment of new businesses based on the available products or services in the national market place with the purpose of providing for the basic needs (Loukil, 2020). Various institutions use entrepreneurship as a vital tool to reduce poverty and unemployment. To note necessity-driven entrepreneurship is prevalent in the developing states and it leads to socio-economic development.

Some of these necessity-driven entrepreneurs are pushed into entrepreneurship because there are no options for job opportunities or those available are unsatisfactory (The Manila Times, 2017). Some of these are constrained by the availability of resources and they are generally from the low-income group with no employment opportunity options (Pret *et al.*, 2016). Necessity-entrepreneurs are not considered

as innovators but imitators. Literature cannot determine the theoretical relationship between unemployment and entrepreneurship. However various researchers and taking into consideration the “push hypothesis” (Kaya, 2019; Kibler & Kautonen, 2016) indicate that the impact and relationship should be positive. Conversely, those advocating for the “pull hypothesis” (Williams, 2008; Zali *et al.*, 2013) suggest that the impact is negative and allude to the view that the unemployed tend to possess limited human capital and entrepreneurial aptitude to establish their own undertaking. Contrasted to necessity-driven entrepreneurship, it is opportunity-driven entrepreneurship which indicate that entrepreneurs are those people who establish enterprises by choice and have readily unemployed capital (Hui *et al.*, 2018). The basic distinction between the two is that some entrepreneurs create enterprises when they see a business opportunity while others may have no other choice but are motivated based on necessity and lack of options in the employment market. Thus, the concept “innovative” entrepreneurship is somewhat related to “opportunity” entrepreneurship (Block *et al.*, 2017).

### **Income Increasing Opportunity-Driven and Entrepreneurial Activity**

The idea of an entrepreneur and his actions is essential to the economic growth process as it was expounded by Schumpeter (1934). Naturally, economic models of entrepreneurship assume that entrepreneurial activities are embarked upon when it pays to do so. Individuals become entrepreneurs when there are prospects of making profits, and when they are rewarded for their entrepreneurial activities in terms of income and wealth (Benz, 2009). Contrasted to necessity-driven entrepreneurship, there is opportunity-driven entrepreneurship that emphasises the type of entrepreneurs who establish enterprises by choice and have readily unemployed capital (Hui *et al.*, 2018). Unlike the necessity-driven entrepreneurs, the opportunity-driven entrepreneurs opt to establish businesses because they may have an excellent idea or have sight of entrepreneurial prospect which they consider as an investment opportunity. General literature on entrepreneurship reveals that there is performance difference between necessity-driven and opportunity driven entrepreneurs (Giacomin *et al.*, 2011; Mohan *et al.*, 2018). While in general entrepreneurs are considered to possess risk-taking, problem-solving and innovative skills; opportunity-driven entrepreneurs end up becoming more successful and make positive contribution to economic growth. Some of the contributory factors to their success include that the opportunity entrepreneurs voluntarily start their own businesses and more often in their specific area of expertise. Therefore, they become more prepared to enter their chosen market space. They also possess high endowment of human capital, which may be necessary and critical to operate a successful and sustainable high growth firm. Human capital may serve as stimulus for entrepreneurship. Thus, regarded as the set of acquired knowledge, competencies and skill that individuals acquire through education, experiences and training as such become useful and aid business success (Loukil, 2020). Further opportunity entrepreneurship has a positive impact on the continuous technological change (Cooper & Park, 2008). The opportunity-driven entrepreneurs are then able to use their acquired scientific and technical

knowledge and use it as raw material for thinking and creating new products and services (Sanders, 2007). Therefore, opportunity-driven entrepreneurship becomes a critical source of innovation and that entrepreneurial opportunities are based on the scientific knowledge creation view aligned to the Kuhnian paradigm shifting dynamics (Kuhn, 1971; Sanders, 2007). As a consequence opportunity entrepreneurs become more prosperous relative to new business success as measured an income per employee and personal income. It has also been noted that those opportunities that are pursued and exploited by the opportunity-driven entrepreneurs are generally profitable, and generate about 15 percent higher earnings as compared to that of the necessity-driven entrepreneurs (Zali *et al.*, 2013).

It has also been noted that there is tendency for entrepreneurs to operate in places where they can achieve maximum financial return. Thus there are two types of entrepreneurial opportunities in the emerging and developed countries; first is the domestic innovation which is characterised by new products that are created by entrepreneurs for the domestic market and the second is the foreign imported products which are those that are adopted by entrepreneurs (Loukil, 2020).

## Method

This paper applied a positivist paradigm since the variables are amenable to measurement of relationship between dependent and independent variables (Park, Konge & Artino, 2020). Therefore, in congruence with the positivist paradigm, the paper applied the quantitative approach with secondary data collection from the World Bank's archive of entrepreneurial activity (World Bank, 2021). Data collection was for the variables, which are the two independent variables – necessity driven entrepreneur and income increasing entrepreneurship for nineteen years. The dependent variable is the total entrepreneurial activity (TEA); both variables were for two BRICS countries namely South Africa and Brazil for nineteen years. Accordingly, the following multiple regression model was applied in the analysis:

$$\gamma = \alpha + \beta_1\chi_1 + \beta_2\chi_2 + \varepsilon$$

Where:

$\gamma$  = total entrepreneurial activity (TEA)

$\alpha$  = intercept

$\beta_1$  -  $\beta_2$  = regression coefficient

$\chi_1$  = necessity driven entrepreneurial activity

$\chi_2$  = Income increasing driven entrepreneurial activity

$\varepsilon$  = error term

## Results

According to the World Bank's description, necessity-driven entrepreneurial activity is used to describe total entrepreneurial activity (TEA) of persons who have moved into entrepreneurial activity because they have no other form of job. In addition, income opportunity or income increasing opportunity-driven entrepreneurial activity refers to the total entrepreneurial activity (TEA) of persons who already have

a form of income deriving job but are motivated to engage in entrepreneurial activity because of perceived income increasing opportunity (World Bank, 2021; Benz, 2009). Table 1 presents the result from the regression analysis of the relationship between total entrepreneurial activity related income improving and necessity driven entrepreneurial activity. The regression statistics show a multiple correlation coefficient (R) of 85%; the R Squared (coefficient of determination), which determines the linearity in the scatter plot between the dependent and independent variables 72% and the adjusted R-squared which considers the effect of multiple independent variables is 69%. All the above percentages, represents the strength of the relationship between the level of entrepreneurial activity and the independent variables (necessity-driven and opportunity-driven entrepreneurial activity). The overall relationship for Brazil indicates a significant relationship at an F level of 0.0000, which is less than the alpha level of 0.05(5%). However, at an individual level, the income improving opportunity is positive and significantly related to total entrepreneurial activity for Brazil at a P-value of 0.000008, but necessity driven is not significant with of 12%, which is higher than the alpha level of 5%. This result shows that for Brazil, the income improving opportunity variable is the booster to Brazil’s total entrepreneurial activity. This result corroborates the view of (Hui *et al.*, 2018), which accentuates the income increasing drive for entrepreneurs. Table 2 examines the same relationship for South Africa; unlike for Brazil, the regression results indicate there is no significant relationship between necessity driven and income increasing driven entrepreneurship and total entrepreneurial activity (TEA) for South Africa. All the relationship metrics in Table 2 are low, for instance, the coefficient of regression and coefficient of determination are below 20%, which indicates very weak relationship. In addition, the p-value, which indicates the level of significant relationship, is above the alpha level of 5%. Hence, the analysis shows that for South Africa, there is no significant relationship between total entrepreneurial activity (TEA) and the two independent variables namely necessary driven entrepreneur and income-increasing entrepreneur. This finding for South Africa buttresses the findings of previous researchers about low uptake of entrepreneurship in South Africa (Malebana, 2017).

**Table 1: Brazil-Total Entrepreneurial Activity Related Income Improving and**

Regression Statistics								
Multiple R	0.851332723							
R Square	0.724767405							
Adjusted R Square	0.690363331							
Standard Error	1.91940312							
Observations	19							
ANOVA								
	df	SS	MS	F	Significance F			
Regression	2	155.2212456	77.61062	21.06632	0.0000329			
Residual	16	58.9457334	3.684108					
Total	18	214.1669789						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-5.179519056	4.405418792	-1.17572	0.256907	-14.5185897	4.159552	-14.5186	4.159552
Incom-Improve	0.348868246	0.054419557	6.410715	0.000008	0.233503939	0.464233	0.233504	0.464233
Necessity	0.10682799	0.066229432	1.612999	0.126292	-0.03357213	0.247228	-0.03357	0.247228

## Necessity

Regression Statistics								
Multiple R	0.136153							
R Square	0.018538							
Adjusted R Square	-0.10415							
Standard Error	2.362323							
Observations	19							
ANOVA								
	df	SS	MS	F	Significance F			
Regression	2	1.686484	0.843242	0.151103	0.860971			
Residual	16	89.28912	5.58057					
Total	18	90.9756						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	11.04831	6.438584	1.715954	0.105466	-2.60088	24.6975	-2.6008771	24.69750012
Income-Improve	-0.05553	0.108736	-0.51068	0.616547	-0.28604	0.174981	-0.2860403	0.174980759
Necessity	-0.04367	0.1044	-0.41826	0.681318	-0.26498	0.177652	-0.2649847	0.177652088

**Table 2: South Africa-Total Entrepreneurial Activity Related Income Improving and Necessity**

## Conclusion

The paper aimed to analysis the effect of necessity-driven entrepreneurial motive and income or opportunity driven motive on total early-stage entrepreneurial activity (TEA). Data were analysed for two BRICS countries - South Africa and Brazil. Results show that out of the two independent variables, the income increasing, or opportunity driven motive proved statistically significant toward enhancing the level of total entrepreneurial activity (TEA). This significant relationship only holds for Brazil, none of the independent variables proved significant for South Africa. This result elevates the importance of savings or financial available in encouraging early-stage entrepreneurial activity. This is visible from the high significance level in income-improving entrepreneurial motive ( $p=0.000$ ) because this group of entrepreneurs are already engaging in an income yielding opportunity, hence they are able to save and take advantage of any income increasing opportunity. However, the necessary driven motive entrepreneurs often lack start-up finance, as this group are mainly unemployed hence seeking entrepreneurship. The low level of entrepreneurial activity in South Africa may be attributed to apparent lack of entrepreneurial activity among the black population, with the largest population in the country (Preisendörfer *et al.* 2012). This lack low level of black population's involvement may not necessarily be interpreted as lack of desire to engage in entrepreneurship, rather previous research documents lack of personal finance or savings amongst the black population, which obstructs engagement of black population into entrepreneurial activity even when the interest abound (Kotzè, 2008). However, other researchers such as Benedict and Venter (2010) lament that even with government, there is low level of entrepreneurship uptake in South Africa. These findings hold important policy implications for re-planning

early-stage entrepreneurial financing based on training and monitoring. The paper suggests further research to expand this analysis and study other African countries in a comparative approach to unravel further insight regarding early entrepreneurial success factors in other African countries.

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