

Framework of entrepreneurship development at the bottom of the African pyramid

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Abstract:

Problem statement: The Bottom of the pyramid (BOP) literature often confuses the emerging middle class for the poor in the African context. According to Karnani (2007a), virtually none of the examples cited by BOP proponents support the recommendation that companies can make a fortune by selling to the poor.

Purpose: The main objective of this paper is to develop a framework for sustainable entrepreneurship at the Bottom of the pyramid (BOP) from an African perspective.

Methodology: a thorough search of literature review was conducted to track success stories on sustainable entrepreneurship at the base of the pyramid.

Findings: Contrary to popular belief that the poor have the reluctance to psychologically commit themselves in initiatives of making as much money as they can. The paper highlights that there are cornerstones for effective and sustainable entrepreneurship development in Africa. These include the role of the state as a facilitator of promoting a conducive environment for potential entrepreneurs by removing all obstacles (financial and structural) that discourage entrepreneurial intensity in the country.

Practical implication: The paper attempts to show that despite the fact the poor does not present any sustainable market, it is important to recognise that opportunities at the BOP exist, there is a roadmap for sustainable entrepreneurship in poor African countries that constitute the bottom of the pyramid.

Key words: entrepreneurship, bottom of the pyramid, wealth creation, Africa.

WHAT IS ENTREPRENEURSHIP

An entrepreneur is a person who identifies opportunities in the marketplace, allocates resources, and creates value. (Acs & Armington, 2006) Entrepreneurship the act of being an entrepreneur implies the capacity and willingness to undertake conception, organization, and management of a productive new venture, accepting all attendant risks and seeking profit as a reward. (Ndedi, 2013: 127) In economics, entrepreneurship is sometimes considered a factor of production, at par with land, labour, natural resources, and capital. (Acs and Armington, 2006) As such, entrepreneurship is a vital component of economic growth and development. The creation of new business entities not only generates value added, fiscal revenues, employment and innovation, but is an essential ingredient for the development of a vibrant small- and medium-sized business sector, the core of most competitive economies. It has the potential to contribute to specific sustainable development objectives, such as the employment of women, young people or disadvantaged groups. Growth-oriented entrepreneurs can also

contribute to structural transformation and building new industries, including the development of eco-friendly economic activities.

Entrepreneurship policy cannot, of course, be treated entirely separately from broader economic development policies. (Stefanescu & On, 2012) Coordination and coherence are essential in order to achieve a positive impact, to benefit from the synergies of these policies, and to maximize the economic and social growth they can provide. This requires a “whole of government” approach with strong commitment at top ministerial level and coordination across ministries, in partnership with the private sector and other civil society stakeholders, including academia, NGOs, and community organizations. In an effective entrepreneurial ecosystem, multiple stakeholders contribute to facilitating entrepreneurship. It is a system of mutually beneficial and self sustaining relationships involving institutions, people and processes that work together with the goal of creating entrepreneurial and innovative ventures. It includes business (large and small firms as well as entrepreneurs), policymakers (at the international, national, regional and local levels), educational institutions (primary, secondary and higher education), social networks and other civil society actors.

The framework recognizes that in designing entrepreneurship policy “one size does not fit all”. It highlights the key policy areas to take into account and suggests policy objectives and options in the form of recommended actions in each area. (Audretsch, Keilbach & Lehmann 2006), Although the national economic and social context and the specific development challenges faced by a country will largely determine the overall approach to entrepreneurship development, UNCTAD has identified six priority areas for policy focus that have a direct impact on entrepreneurial activity. These are Li, Yang, Zhang & Zhang (2012):

- formulating national entrepreneurship strategy;
- optimizing the regulatory environment;
- enhancing entrepreneurship education and skills;
- facilitating technology exchange and innovation;
- improving access to finance; and
- promoting awareness and networking.

DEFINITION OF THE BOTTOM OF THE PYRAMID

The concept of the bottom of the pyramid (BoP) was first used by U.S. president Franklin D. Roosevelt in his April 7, 1932 radio address, *The Forgotten Man*, in which he said ‘These unhappy times call for the building of plans that rest upon the forgotten, the unorganized but the indispensable units of economic power...that build from the bottom up and not from the top down, that put their faith once more in the forgotten man at the bottom of the economic pyramid’. The more current usage of the BoP refers to billions of people living on less than a \$2 per day (Prahalad & Stuart, 1998). In his proposal of uplifting the poor of the poor, Prahalad (2002) and later Ndedi (2013: 129) propose that businesses, governments, and donor agencies must not see the poor as victims, but instead start seeing them as resilient and creative entrepreneurs as well as value-demanding consumers.

Hart & Simanis (2005) advance another approach, one that focuses on the poor as business partners and innovators, rather than just as potential producers or consumers. Hart & Simanis (2005) have led the development of the Base of the Pyramid Protocol, an entrepreneurial process that guides companies in developing business partnerships with income-poor communities in order to co-create businesses and markets that mutually benefit the companies and the communities. Another recent focus of interest lies on the impact of successful BoP

approaches on sustainable development from a normative ethical perspective, on poverty alleviation as part of an integral part of sustainable development in an intra-generational justice platform.

What about empowering the bottom of the pyramid or the base of the base of the pyramid in Africa? There are poverty reducing benefits if the African government works with financial institutions, civil society organizations and local governments to create new local business models that support financially potential entrepreneurs with no business collateral. More than 150 millions of Africans form this largest, but poorest socio-economic group that need sometimes just F CFA 100 000 or 500 US dollars to start a business in the corner of a street in Bouakè, Bujumbura, Daloa, Petersberg, Linlongwe. After all, uplifting the poor of today who may be a part of the middle class of tomorrow, engine of growth in any country. (Ndedi, 2016)

STATEMENT OF THE PROBLEM

Entrepreneurship is one of the most important drivers of job creation and economic growth, and is crucial for the development of a vibrant formal small- and medium-sized (SME) business sector. (Ndedi, 2013: 131) It enhances productivity growth and can also help find practical business solutions to social and environmental challenges, including climate change. Despite its importance, entrepreneurship is not always actively encouraged in all developing countries through dedicated policy initiatives. Both economic theory and practice demonstrate that entrepreneurship may generate social gains beyond private gains. A proactive role of governments in supporting entrepreneurship is, therefore, justified and it requires a systemic. The development community including multinational companies has tended to focus on meeting the needs of the poorest of the poor; the 1 billion people with incomes below \$1 a day in local purchasing power. Fortunately, a much larger segment of the low income population; the 4 billion people of the BOP, all with incomes well below any Western poverty line, both deserves attention and is the appropriate focus of a market-oriented approach. Therefore, the starting point for this argument is not the BOP's poverty. Instead, it is the fact that BOP population segments for the most part are not integrated into the global market economy and do not benefit from it. They also share other characteristics (IFC 2007: 5):

- **Significant unmet needs.** Most people in the BOP have no bank account and no access to modern financial services. Most do not own a phone. Many live in informal settlements, with no formal title to their dwelling. And many lack access to water and sanitation services, electricity, and basic health care. (Ndedi, 2008)
- **Dependence on informal or subsistence livelihoods.** Most in the BOP lack good access to markets to sell their labor, handicrafts, or crops and have no choice but to sell to local employers or to middlemen who exploit them. As subsistence and small-scale farmers and fishermen, they are uniquely vulnerable to destruction of the natural resources they depend on but are powerless to protect (World Resources Institute and others 2005). In effect, informality and subsistence are poverty traps.
- **Impacted by a BOP penalty.** Many in the BOP, and perhaps most, pay higher prices for basic goods and services than do wealthier consumers either in cash or in the effort they must expend to obtain them and they often receive lower quality as well. This high cost of being poor is widely shared: it is not just the very poor who often pay more for the transportation to reach a distant hospital or clinic than for the treatment,

or who face exorbitant fees for loans or for transfers of remittances from relatives abroad. (Ndedi, 2008)

Addressing the unmet needs of the BOP is essential to raising welfare, productivity, and income to enabling BOP households to find their own route out of poverty. Engaging the BOP in the formal economy must be a critical part of any wealth-generating and inclusive growth strategy. And eliminating BOP penalties will increase effective income for the BOP. Moreover, to the extent that unmet needs, informality traps, and BOP penalties arise from inefficient or monopolistic markets or lack of attention and investment, addressing these barriers may also create significant market opportunities for businesses. Perhaps most important, it is the entire BOP and not just the very poor who constitute the low-income market—and it is the entire market that must be analyzed and addressed for private sector strategies to be effective, even if there are segments of that market for which market-based solutions are not available or not sufficient. It is important to say that business interest in BOP markets is rising. Multinational companies have been pioneers, especially in food and consumer products. Large national companies have proved to be among the most innovative in meeting the needs of BOP consumers and producers, especially in such sectors as housing, agriculture, consumer goods, and financial services. And small start-ups and social entrepreneurs focusing on BOP markets are rapidly growing in number. But perhaps the strongest and most dramatic BOP success story is mobile telephony.

According to IFC (2007), the operating and regulatory environments in developing countries can be challenging. Micro and small businesses especially face disadvantages. If they are informal, they cannot get investment finance, participate in value chains of larger companies, or sometimes even legally receive services from utilities. Condemned to remain small, they cannot generate wealth or many jobs. Nor do they contribute to the broader economy by paying taxes. Most face barriers to joining the formal economy in the form of antiquated regulations and prohibitive requirements, dozens of steps, delays of many months, capital requirements beyond attainment for most of the BOP. Fortunately, there is growing recognition of the importance of removing barriers to small and medium-size businesses and a growing toolbox for moving firms into the formal economy and creating more efficient markets. Africa has a slightly smaller BOP market, at \$429 billion. But the BOP is by far the region's dominant consumer market, with 71% of purchasing power. It includes 486 million people 95% of the surveyed population. (IFC 2007: 12)

This article focuses on a road map or the move from financially supporting business people who are not creating jobs, to empowering millions at the base of the pyramid from a poverty alleviation perspective. The paper provides the roles that must play African governments, individuals and even big corporations based in Africa to achieve the above.

METHODOLOGY

A literature review was conducted around the concepts entrepreneurship development and the bottom of the African pyramid. This extensive search of expressions consisted of looking at worldwide platforms and websites on African entrepreneurship.

FINDINGS

Unsupportive business environment

Lack of supportive governmental regulations serves as a barrier to entrepreneurship. In a number of African countries, there is lack of rule of law. African countries in their majority

have poorly defined property laws, enforce regulations inconsistently, and allow widespread corruption and bribing. (Makamba, 2015)

Shortage of funds and resources

Money to start up an enterprise is another leading barrier to entrepreneurship. Without funds, any entrepreneur cannot start or organise, train, develop and sell product.

Employee related difficulties

Entrepreneurs must find and select the best-qualified employees who are motivated and willing to grow with the venture. Then they must ensure the employees do not leave. Practically this task becomes a barrier when employees' expectations increases, governmental regulations related to labour employment is hardened, and employee costs grow. Employee cost is more than pay. It includes healthcare, workers' compensation, social security tax, and health and safety regulations. In many African countries, this is the business of the day.

Severe market entry regulations

Taxation, environmental regulations, lending requirements, government rules and licensing are all barriers to entrepreneurship. Most countries license market entry and the creation of new firms to protect employees in certain industries and professions. Entry procedures vary such that entrepreneurs need one day to register an enterprise in one country and up to half a year in another. (Makamba, 2015)

Lack of entrepreneurship opportunities

Business creation needs existing marketplace opportunities with possibilities known to the entrepreneur and favorable odds for success for entrepreneurial "spirit" to succeed. How do you start? A market opportunity for entrepreneurs should always be unique, a gap and should be serviced or filled with ideal quality in form of products or services.

Perception of society

Perception of society towards failure is common in Africa. The African society tends to reject and judge failure and a mistake, keeping potential entrepreneurs in a mindset of going through life trying to avoid mistakes without realising that failure is part of success or the beginning of something big.

Educational barriers

Entrepreneurs must develop skills related to leadership, teamwork, negotiation and communication. There are things you learn in school, yet many of these skills must be acquired by taking risks and throwing caution to the win, venturing into the unknown. (Ndedi, 2013)

Lack of adequate entrepreneurship training

Training and education can be a biggest advantage for new ventures. This includes training in technical skills, managerial skills, entrepreneurial skills and entrepreneurship. Unfortunately, these opportunities are inexistent in Africa. (Ndedi, 2013)

Lack of industry experience

Rushing into a new market because it looks attractive and rewarding without having some experience and background in it can be fatal. The heart of leadership is learning first and doing before leading. Experience in a related business before startup is positively associated

to success. In the African context, platforms such as these are not widespread. (Ndedi and Ijeoma, 2008)

Hatred of risk

A psychological barrier closely related to the fear of failure is aversion to risk. Entrepreneurs must take initiative, create structure with a social-economic mechanism and accept risk of failure. In the African continent, entrepreneurs are not risk takers while those who are risk averse will seek the security of an existing establishment. (Ndedi, 2008)

ROADMAP FOR SUSTAINABLE ENTREPRENEURSHIP DEVELOPMENT

According to Fuduric (2008), there are four frameworks that influence entrepreneurial orientation. These include, Economic Conditions, Policy Conditions, Industry Conditions and demographic conditions.

1. Economic Conditions Affecting Entrepreneurial Opportunities

Entrepreneurship exists under any economic conditions. The state of an economy influences the tendency and form of entrepreneurial activity. The entrepreneurial outcome can lie on a spectrum of two extremes; from an innovative, market and economy shifting venturing or on the other end of the spectrum, an illegal corrupt form of venturing and, of course, everything in between. Economic conditions affecting the type of opportunities available are: the stability of macroeconomic conditions & the level of economic growth, employment levels, income disparity, capital availability and taxation. Fuduric (2008: 17)

When a nation or region experiences stable **macro-economic conditions** and sustained **economic growth**, the higher the likelihood that the form of entrepreneurship being manifested is also of a higher value to society (GEM, 2006). Often in such environments, low-value, low-innovation entrepreneurship will decrease in favor of employment and high value, innovative entrepreneurship will increase because the environmental conditions have improved enough to provide higher value resources.

Employment's impact on entrepreneurship is closely related to the wage rate. Explaining spatial variations in new firm formations, Storey (1994), argues that if unemployment rates are high then individuals are more likely to consider self-employment opportunities. It has shown that high rates of unemployment reflect a lack of economic flexibility, perhaps "a lack of enterprise" in the population driving the demand shortage. Thus, there is a two-way causation where high unemployment can stimulate levels of entrepreneurship due to no other job opportunities being available and, on the other hand, low levels of unemployment can increase levels of entrepreneurship due to a robust and flexible economy. Fuduric (2008: 18)

Income disparity can impact entrepreneurship from the supply and the demand side of entrepreneurship (Verheul et al., 2001). Considering the **supply side**, high income disparity can push low wage earners into self-employment, because their opportunity costs of entrepreneurship are low. For people on the verge of poverty (African countries for example), starting a business can be their last resort for survival in some form of self-reliance. High income disparity can also encourage the wealthy to start a business because of the low risk nature of finding and using financial capital.

On the **demand side**, high income disparity in a nation encourages a diverse nature of goods and services on the market. The wealthy seek basic need and luxury products while the poor focus on basic need, subsistence products. Bosma, Wennekers, de Wit, and Zwinkels (2000) found income disparity to have a positive influence on self-employment in a time-series study conducted in the Netherlands.

In fact, income disparity encourages entrepreneurship from the supply and demand perspectives. Yet, an increase in entrepreneurship continues to encourage income disparity due to the different forms of businesses being created by the wealthy and the poor. In a study conducted by the OECD there is empirical evidence which shows that there is more income inequality amongst the self-employed than amongst wage earners (OECD, 2000).

2. Policy Conditions Affecting Entrepreneurial Opportunities

The government has a multi-faceted role in encouraging entrepreneurship development. First, the quality of a nation's government can be assessed through how robust the nation's **rule of law** is as well as **private property rights**. These are the foundations needed for developing entrepreneurship. Second, governments have a market correcting role where they ideally intervene when markets fail. Market failure occurs when there is a high level of market concentration creating cartels or monopolies which sabotage competition, when resources concentrate in urban areas leaving peripheries impoverished, when information discrepancies exist, when markets are absent or dysfunctional, and in the privatization of collective goods (Storey, 1994). The government can influence whether competition remains unencumbered which leads to the efficient allocation of resources. They can do this by encouraging economic agents to act fairly in the distribution of income, payment of taxes, and the honoring of contracts. This subsection provides a short overview on the effects of macro-economic policy, licensing, bankruptcy, deregulation, resource policies, and industry-related policies on entrepreneurial opportunities. Fuduric (2008: 23),

Macro-Economic Policies

Macro-economic policies are policies focusing on the economy as a whole and not directly influencing the level of business ownership. However, macro-economic policies have an important impact on the trading position of small firms. It provides a framework within which taxation, the labor market, regulation, social security and income policy affect small businesses (Storey, 1999). Researchers agree that because macro-economic policies can provide barriers or stimuli to small business development, they should be instituted with great care and foresight.

Regulation of Business Beginnings and Endings – Licensing & Bankruptcy

The intensity of **business licensing** requirements will dictate when and how the entrepreneur will go about starting his/her business. It is important in this most un-entrepreneurial phase to limit barriers and costs so that the entrepreneur can quickly establish himself in the market. Some potential costs and barriers are found in certifications, standardizations, financial capital outlays and procedural complexity.

Certain professions require a certain skill level or **certification** to be able to supply their product or service e.g. law, accountancy, and medicine. In addition, some fields require certain environmental and safety standards (e.g. architecture, engineering) set by the government. Another potential barrier for entrepreneurs is the level of financial capital

needed to receive a business license. There is a large variance in national requirements for financial capital. The procedural complexity of the forms and approvals required can also be a source of aggravation and a barrier for the entrepreneur. Fuduric (2008: 24),

If the business start-up procedure is complicated and/or rigorous, it can have two effects. First, the costs can have the effect of putting too great a burden on the entrepreneur's willingness to take the risk of starting a new business. Second, start-up requirements can have a positive impact on the level of entrepreneurship in the long run because they can contribute to a higher quality of entrepreneurship and a higher business survival rate (Verheul et al., 2001).

Often seen in the most negative light, **bankruptcy** is a part of the entrepreneurial process and actually has some benefits. When an entrepreneur experiences failure, two things can occur. First, the experience is a source of learning and experience for the entrepreneur and for the entrepreneur's environment. Second, this learning functions as a signaling effect to the individual or other economic agents to either abandon this business idea or to use the new knowledge in different ways to tweak the idea and try again. Entrepreneurship can be discouraged if policies exist which severely restrict the ability of a firm to close or restructure (OECD, 2000). The government can help in this regard by regulating bankruptcies by using discharge clauses which free the debtor from his debt within a certain time frame. Other rescue possibilities include the postponement of debts and restructuring. In practice, the temporary debt moratorium is more frequently used than reorganization (EIM/ENSR, 1997).

Deregulation

According to Storey (1999), deregulation has two aspects. First, it lifts administrative and legislative burdens that take time, energy and resources away from fundamental entrepreneurial activity. Second, it stimulates free markets which increase competition. A deregulated environment ensures that only the fittest businesses can remain in the market due to competitive pressures. Such an environment makes it possible for people to reallocate resources to new uses in ways that are more profitable or that redistribute wealth. Research has shown that deregulation of industries such as the telecommunications, utilities, railroad, and banking have created new industry structures, new products and markets, and have redefined they way profits can be made.¹ On a more macro level, the change from a communist/socialist system has been known to create more entrepreneurial opportunities (McMillan & Woodruff, 2002).

Resource Related Policies

Government resource related policies stimulate small firm access to labor, financial capital and information/knowledge. Policies have the distinction of either improving the financial conditions of the firm or improving the operating efficiency of the firm (Storey, 1994). Financial oriented policies focus on reducing market imperfections and take the form of alternative capital markets. Often this is seen as direct payments of loans or grants to the firm or even as a form of venture capital. One problem with stimulating entrepreneurship in this way is that the wrong type of person may be attracted to such an offer. A person may become an entrepreneur because the funding is available not because their idea is marketable. Fuduric (2008: 29) Efficiency enhancing policies remedy

¹ For examples of how political changes affected the deregulation of electric utilities see (Sine, Haveman, & Tolbert, 2001), and banking (Caroll & Hannan, 2000; Holmes & Schmitz, 2001).

information imperfections and often include business training, consultancy and counseling. Research has shown that government supplied entrepreneurial services help most in initiating and stabilizing a business but does very little for the growth of businesses (Bosma & Harding, 2006).

Sectoral Policies

Instead of general policies that focus on the small business sector as a whole, policies can also target specific sectors, regions or groups. Some of these policies include different groups of people (women, young people, immigrants and the unemployed), different sectors of industry (IT, biotechnology, life sciences). And yet, some policies focus on encouraging entrepreneurial activity in different geographies in the hope of combating rural depression or urban decay. There are mixed results with sectoral policies (Storey, 1994). It seems that execution and efficiency are integral to carrying out these policies successfully.

3. Industry Conditions Affecting Entrepreneurial Opportunities

Certain conditions in industries encourage or discourage entrepreneurial opportunities. The following conditions affect entrepreneurial opportunities which include, knowledge, demand, structural conditions affect opportunities and how they affect them. Therefore, each condition will be examined in more detail.

Knowledge Conditions

R&D intensity and technological advancement creates opportunities for entrepreneurs because resources are allocated in different and potentially more productive ways. It enables the creation of new products which diversifies and intensifies demand (Casson, 1995). Technology that advances the way communication is undertaken and information exchanged aids in market-based coordination supporting the existence of small firms (Jovanovich, 1993). Research shows that the number of firms tends to rise in the early stages of a product's life (Carree, Audretsch, & Thurik, 2001; Klepper & Simons, 1994) Which in turn, proves why innovative, high technology businesses contribute the most to employment (Wong, Ho, & Autio, 2005).

A study undertaken by Klevorick, Levin, Nelson & Winter (1995) showed that technological change is a greater source of opportunity in some industries than others. They showed that industries with closer ties to the natural sciences have more entrepreneurial opportunities. They also showed that the source of opportunities differs across industries. In some industries, these opportunities lie outside of the value chain and are found in universities, government agencies, and research laboratories. In other industries, these opportunities lie within the value chain and include firms, their suppliers, and their customers. Technological advances can also have a negative effect on some forms of entrepreneurship. Fuduric (2008: 31) They can create barriers to entry due to high levels of investment and R&D costs.

Demand Conditions

Demand conditions conducive to entrepreneurial opportunities basically follow the tenet large markets, more opportunities. Also, growing markets are sources of excess demand. In expanding markets existing enterprises cannot keep up with new demand therefore creating holes for new entrants. In a segmented market, there are many niches to exploit,

the smaller the firm the faster they can take advantage of their reaction time to harness a part of the market that a larger, slower firm cannot. Fuduric (2008: 32),

Industry Structure

An industry's structure either encourages or discourages new entrants. Three structures which encourage entrepreneurship are the service economy, outsourcing and spin-offs, and clusters (Verheul et al., 2001). The **service economy** supports a level of economic growth where small firms have many opportunities. They stem from needing little start up capital thus limiting barriers to entry. According to the EIM/ENSR report (1997) most western countries function within a predominate service economy which increase the likelihood of more entrepreneurial activity.

With the advent of the 1980's, large firms were returning to their core competencies and divesting themselves of products and services that were draining resources. This divestment of non-core businesses took the form of **spin-offs and outsourcing** creating ready-made businesses for the entrepreneurial minded. The era of returning to core-competencies has been verified in Carlssen & Taymaz (1994) who show that a decrease in vertical integration and conglomeration since the 1970's has decreased the average size of firms and increased the number of new ventures.

The third industrial form that enables entrepreneurship is the phenomenon of clustering. **Clusters** have the characteristic that they are business relationships involving various levels of commitment between large enterprises and small businesses (Verheul et al., 2001). The firms are geographically agglomerated, characterized by high density business activity which exhibits cooperation and competition. It is common that they focus on one industrial activity (e.g. the fashion industry in northern Italy) and that small firms offer their expertise along the production process. The social networks between firms offer a framework for information exchange, support, and knowledge spillovers. This strengthens the position of small firms increasing the likelihood of their success. Fuduric (2008: 33), The older an industry is, the fewer opportunities there are for small firms. This occurs for several reasons. First, as an industry ages demand begins to level off and shift downward. Second, as an industry ages, the more likely existing firms can fulfill demand requirements. Third, the knowledge base of an industry tends to become more stable as firms move up the learning curve. They develop more efficient ways of developing products or services and serving markets.

If an industry exhibits the possibility of earning **high profit margins** then it also acts as an attraction for new entrants. **Lower input costs** encourage new firm creation because the risk of overextending financially is reduced. Researchers have shown that lower input costs impact the likelihood of new venture success (Audretsch & Mahmood, 1995; Reid, 1999). The sources of input costs are found in high initial **capital outlays and advertising intensity**. A **dominant design** in an industry creates economies of scale and tends to push out new entrants. Before a dominant design is generally accepted, an industry experiences many different forms of organization and product/service offerings which attract entrepreneurial ideas (Geroski, 1995).

4. Demographic and Cultural Conditions Influencing Entrepreneurial Opportunities

This section explains demographic and cultural conditions influencing entrepreneurial opportunities.

Table: Demographic & Cultural Conditions Influencing Entrepreneurial Opportunities

Demographic & Cultural Conditions	Effect on Opportunities
DEMOGRAPHIC CONDITIONS	
Population Growth	Increases
Population Density & Urbanization	Increases
Immigration & Population Mobility	Increase/Decrease
Educational Infrastructure	Increase/Decrease
CULTURAL CONDITIONS	
Social acceptance of entrepreneurship	The more acceptance, the more likely opportunities will be exploited.
Attitudes toward failure & bankruptcy	The more negative the attitude, the less likely opportunities will be exploited.
Bureaucracy & Corruption	Decreases the opportunities exploited by legitimate entrepreneurs
Tradition	Increase/Decrease
Social Capital	Increases due to cooperation, trust
Power Distance (PDI)	Depends on context
Uncertainty Avoidance (UAI)	Depends on context
Masculinity (MAS)	Depends on context
Individualism (IDV)	Depends on context

Demographic Conditions

Certain demographic conditions affect whether entrepreneurship will take place and what kind of entrepreneurship takes place. These conditions include: population growth, population density & urbanization, immigration & population mobility, and the educational infrastructure.

Population Growth

The population growth rate is a statistic that can have multiple meanings for enabling entrepreneurship. Countries experiencing population growth have a larger portion of entrepreneurs in their workforce than populations not experiencing growth (ILO, 1990). However, population changes have other indirect effects on entrepreneurship levels. First, if a nation is experiencing rising levels of immigration, levels of entrepreneurship tend to rise as well (Storey, 1994). Population growth has the tendency to put pressure on wages thus lowering the opportunity cost of starting a business (Verheul et al., 2001). This would make entrepreneurship a more attractive career option. Third, population growth has the effect of increasing demand for consumer goods which increases market opportunities for new products and services.

Urbanization Rate and Population Density

A healthy urban environment provides many benefits for entrepreneurship, especially a high growth, innovative, high technology form of entrepreneurship. The presence of universities and research centers fuels evolving technologies and promotes innovation as well as providing an economy with an educated workforce. The most desirable markets to conduct business in are those that have a high population density. The attractiveness lies in the diversity of demand in a relatively small geographic area which reduces communication and transportation costs. This mixture of trade, research, diversity, population density, high levels of education has a cumulative effect and attracts other businesses because of the benefits derived from cooperation, spillover effects and the signaling effect² (Audretsch & Fritsch, 2000).

Not all of the entrepreneurial opportunities in an urban area are of a tangible variety. According to Sarasvathy (2001), areas of large population density also provide intangible assets crucial for entrepreneurial activity such as having forums for informal gatherings (cafes, sport clubs, cultural venues, etc.), the existence of role models, and the potential to experience novel ideas. In contrast to dynamic urban environments, outlying regions (peripheries) have difficulties in attracting human and financial resources to support high growth entrepreneurship. However, with the advent of more sophisticated and less expensive information technology, the distance between the periphery and core is being reduced. Fuduric (2008: 17),

Immigration and Population Mobility

Immigration can increase or decrease the level of entrepreneurship in a country depending on a host of factors. The immigrants' level of education and skills is a deciding factor if they will start a business or not. If they think that the work available in their host country somehow marginalizes their skills or self-esteem, they will be more likely to start a business. Of course, the environment of the host country is very important. If there are many legal and administrative barriers, it is less likely immigrants will take the opportunity of self-employment. Their lack of social, cultural and often language fluency can be a barrier to maneuvering through bureaucratic mazes (Clark & Drinkwater, 2000). Several pieces of empirical evidence support the argument that population mobility is a source of entrepreneurial opportunity. For example, Reynolds et al (1994) examined a cross regional variation in firm birth rates for the mid-1980's in France, Germany, Italy, Sweden, the United States, and the United Kingdom. They found that immigration to a region was positively correlated in five of the six nations. For other examples of population migration and positive correlations to entrepreneurship please see: (Pennings, 1982; Schell & David, 1981)

Immigrants tend to open businesses offering something to do with their prior knowledge, for example, supplying the immigrant community with restaurants, groceries and other supplies from their home countries. Often these ventures fail because of the quick saturation of a small market share (Clark & Drinkwater, 2000). The rate of starting new firms also differs with the cultural background of the immigrant. It has been noted in the United States that immigrants from Asia are far more likely to become entrepreneurs than immigrants from Africa.

² The signaling effect simply means that firms are attracted to an area because other firms seem to be successful.

Educational Infrastructure

The educational infrastructure can affect opportunity exploitation on two levels of analysis. On the first level, the educational infrastructure affects the form of entrepreneurship taking place. For example, the higher the level of education available in a society, the more likely that people are engaging in an innovative, robust form of entrepreneurship and vice versa, the lower the level of education available, the more likely that a lifestyle or subsistence form of entrepreneurship will take place. The level of education also affects how resources are viewed by the entrepreneur. It has been empirically proven that the lower the level of education, the less likely an entrepreneur will see the value of getting grants from government or non-government subsidized aid (Meccheri & Pellini, 2006).

Analyzing the role of education on another level, it has a direct and an indirect affect on opportunity exploitation. In a direct way, universities are one of society's breeding grounds for new technology, research and information/knowledge networks which are integral elements for new, innovative ventures (Bull & Winter, 1991; Pennings, 1982) In a more subtle way, educational institutions can be a source or barrier of opportunity because they set the rules as to how information and knowledge will be transferred (Aldrich & Wiedermayer, 1993). These rules form opinions and actions on whether trust can grow, if cooperation can take place, if creativity is valued and whether failure is managed without judgments. The presence of trust, creativity, cooperation and the ability to take risks and fail without being shamed are all aspects that can encourage the budding entrepreneur to explore new venture opportunities. These attributes on an educational level start leading us to the question of cultural factors on opportunity exploitation on a national level which is explored in the next section.

Cultural Factors

Geert Hofstede defines culture as "the collective programming of the mind which distinguishes the members of one human group from another." (Hofstede et al., 2004p. 21) Boyd and Richardson (1985) explain in more detail what "collective programming" involves by defining culture as "the transmission from one generation to the next via teaching and initiation of knowledge, values and other factors that influence behavior." Entrepreneurial action is not only defined by economics, politics, and industries but also by the diffuse cultural considerations taken from the above definitions, e.g: collective programming, transmission of knowledge, generational inheritance, teaching, initiation, values, and behavior. Davidsson (1995) identifies two views regarding the relationship between cultural values and entrepreneurial behavior. The first view is a culture's effects on the social legitimization of entrepreneurship. The second view involves the suitability of the aggregate psychological traits of a nation in supporting entrepreneurship.

The social legitimization view suggests that certain cultural factors are known to have a positive effect on entrepreneurial behavior and action. They include: social acceptance of business ownership, the social acceptance of business failure and bankruptcy, the reduction of bureaucracy and corruption (Etzioni, 1987). Other cultural factors like tradition and levels of social capital will also influence entrepreneurship levels. Another way to assess culture is through a nation's aggregate psychological traits using Hofstede's cultural indices (Hofstede, 1984) and assessing them against traits conducive for an entrepreneurial environment. The findings using the cultural indices turn out to be quite

contradictory. The indices considered are: Power Distance (PDI), Uncertainty Avoidance (UAI), Masculinity (MAS), Individualism (IDV) (Hofstede et al., 2004). The next section explores the effects of social legitimization including tradition and social capital as well as Hofstede's cultural indices on opportunity exploitation.

Social Acceptance of Business Ownership

It can be stated that the more socially acceptable entrepreneurial activities are, the more likely they are to occur. Blanchflower (2000) found this pattern by comparing nations. The author examined data from the International Social Survey which is a random sample of people in 23 nations in 1997 and 1998. He found overwhelming evidence of large national differences in the preference for self-employment and that such preferences were positively correlated with actual self employment. Other researchers came to the same conclusions. Swanson and Webster (1992) wanted to understand if cultural beliefs directly affect decisions to engage in opportunity exploitation. They found that negative attitudes toward entrepreneurs actually kept people from starting their own ventures in the Czech and Slovak Republics. On the other hand, perceptions of the high social status of entrepreneurs have had an encouraging effect on MBA's in the US to start their own businesses (Begley et al., 1997).

Business Failure and Bankruptcy

A non-financial consequence of bankruptcy is the social stigma which differs between countries. In the United States, failure is often seen as an unfortunate outcome of a "good try". Whereas in most European countries, bankruptcy is often seen as a personal failure (OECD, 1998). To stimulate risk-taking entrepreneurial activity, governments could influence societal views toward failed enterprises by providing certain safety nets to lessen risk aversion. A policy suggestion by Kirzner (1997) goes as far to say that governments should guarantee free entrepreneurial entry into any market where profit opportunities are perceived to exist but that an exit free of social stigma and financial burden should be safeguarded.

Bureaucracy and Corruption

In societies where bureaucracies and the judicial system are inefficient and corruption runs rampant, economic growth is hampered. Entrepreneurial action can and does take place in these settings but limits society's benefits from entrepreneurship. Corruption and bureaucratic inefficiencies lower private investment (Mauro 1995) which implies that fewer new ventures will be opened. When there is less private venturing then society is deprived of taxation income and the potential gains of higher employment.

Cultural Beliefs and Tradition

Cultural beliefs and tradition have either a positive or a negative effect on entrepreneurial action. Its positive effects can be in the form of providing a legacy. The legacy of living in or coming from an entrepreneurially active community (either in the larger sense or within a family unit) which displays positive attitudes towards entrepreneurship and provides entrepreneurial role-models increases the likelihood that entrepreneurship will be a respected activity. Attitudes embedded in traditions and culture that support entrepreneurship are the acceptability of using individual judgment, exhibiting reciprocity and withholding moral commitments which facilitates resource acquisition (Shane, 2003). Another positive aspect of tradition is linked to assets. Benneworth (2004) argues that tradition aids in anchoring local assets in a region serving as a resource for new firms.

Some empirical evidence of the negative effects of tradition shows that it can impede entrepreneurial action. A study has presented the view that certain cultures, specifically, Irish, African, Hispanic, and Polish, have less incidence of entrepreneurial behavior in the United States (Butler & Herring, 1991). Negative attitudes toward entrepreneurship in CEE has been triggered by historical Communist distrust of private ventures and the mismanagement of privatization schemes (Singer, 2007). Since entrepreneurship is a social construction, it will reflect the values, culture, and traditions of the nation or region in which it is enacted. Because its fluid characteristics depend on the resources of the people and the environment which engender it, entrepreneurship can have productive, unproductive and destructive tendencies (Baumol, 1990). Thus, entrepreneurs have the interesting task of oscillating between being the bearers of traditions they inherit and being the harbingers of the modern thought and actions.

Social Capital

Anderson and Jack (2002) credit the actual term “social capital” to Jacobs (1969) while Loury (1977) developed the individualistic and economic conception (Cooke & Wills, 1999). It is broadly defined as an asset that exists in social relations and networks (Bourdieu, 1986; Portes, 1998). In their literature review, Anderson and Jack (2002) have identified four research dimensions of social capital. The first is the structural dimension introduced by Granovetter (1985) with his delineation of strong and weak social ties, their characteristics and benefits. The second is the relational dimension which has been studied on the level of the individual (Belliveau, O'Reilly, & Wade, 1996), firms and societies (Cooke & Wills, 1999; Putnum, 2001; Uzzi, 1997) and of the nation (Fukuyama, 1995; Putnum, Leonardi, & Nanetti, 1993). The third is the cognitive dimension described as social capital being supported by shared values or norms of acceptable behavior (Nahapiet & Ghoshal, 1998). The fourth is what Leana & Van Buren (1999) describe as associability which is the skill to act socially with others and the willingness to subordinate personal desires to group objectives.

The features and benefits of social capital are far-reaching. It has been described as the glue that binds and the lubricant that eases economic relations (Anderson & Jack, 2002). Robert Putnum describes the benefits of social capital as giving rise to reciprocity, trust, and increased cooperation (Putnum, 2001). Flora (1998) notes that social capital activated in networks facilitates the co-ordination and co-operation of the network for mutual benefit. It may take the form of obligations arising within group membership (Bourdieu, 1986), or obtaining resources through the contacts within a network. These links can provide privileged information or access to resources or opportunities.

Social capital was originally seen as a relational resource which individuals use for development (Jacobs, 1969; Tsai & Ghoshal, 1998). A broader view considers social capital as a number of resources embedded in relationships (Burt, 2002). This notion of a resource fits neatly with the concept of entrepreneurial networks because although entrepreneurship is a creative process it operates within constrained parameters (Anderson & Jack, 2002). The constrained parameters will determine how much information, explicit and implicit knowledge and access to physical resources the entrepreneur has. Fafchamp & Minten (1999) confirmed in their study that the social capital mined from networks is essential for firm growth. They conclude that smart entrepreneurs accumulate it in the same way they do physical resources. Social capital arises not as a by-product of their social interaction but as an investment in them.

Anderson & Jack (2002) found that the formation of social capital among entrepreneurs emphasized *process* rather than outcomes. In other words, entrepreneurs develop social capital more in terms of “building potential rather than harvesting benefits” (Anderson & Jack 2002). A social capital building or networking etiquette was isolated where no one entrepreneur could dominate nor appear to be self-seeking. Their interactions were iterative and mutual processes. Anderson & Jack (2002) found that the far reaching networks arising from social capital make the entrepreneurial organization broader than the entrepreneurial business per se. This in itself gives the entrepreneur access to resources he would otherwise not have if left to operate in an isolated way. This refutes the image we often have of the entrepreneur as a lonely figure. Instead, he is a highly social being and the more competent he is socially, the more resources he has at his disposal.

Hofstede's Cultural Indices Effects on Entrepreneurship

Four studies by different authors have come up with contradictory evidence as to how entrepreneurship is affected by Hofstede's cultural indices. When understanding how culture affects inventions in a society, Shane (1992) found that when comparing countries, low PDI (power distance) and high IDV (individualism) are responsible for more inventiveness. In another study, Shane (1993) examines culture and innovation (number of patents) and found that having a weak UAI (uncertainty avoidance) has the strongest influence on innovation, even greater than per capita income. Another outcome of this study was that low PDI and high IDV are related to innovation though by a lesser extent than UAI.

In a direct contradiction to Shane's results, McGrath, MacMillan & Scheinberg (1992) compare entrepreneurs and non-entrepreneurs in eight countries. They found that the entrepreneurs had higher levels of PDI, higher levels of IDV, and MAS (masculinity). They scored low on UAI. The power distance index contradicts Shane's findings. A reason for this may have been that one study compared countries and the other compared entrepreneurs to non-entrepreneurs. Comparing countries, Baum et al (1993) hypothesized that not high, but low, individualism may stimulate entrepreneurship. Their argument states that in an individualistic society organizational structures are better adapted in dealing with people with individualistic characteristics. Thus, less individualistic societies push people with entrepreneurial needs into self employment because of their dissatisfaction with the status quo. Acs, Audretsch & Evans (1994) in Hofstede et al (2004) empirically examine culture and self-employment at the level of nations. They found similar results to Baum's where higher levels of UAI and decreased levels of IDV are related to higher levels of entrepreneurship.

As mentioned before, a dissatisfaction of mainstream corporate cultures which are usually reflected in society could give rise to more self-employment. Other more micro level dissatisfaction claims have been confirmed in several studies. Hofstede et al (2004) and Brockhaus (1982) have shown that dissatisfaction is often embedded in several dimensions of job satisfaction, more specifically with: the work itself, with management, and with promotion opportunities. Hofstede et al (2004) have found that where there is a larger dissatisfaction with society and life in general, there are higher levels of entrepreneurship. They also found that countries with higher levels of entrepreneurship have larger power distances, more competitiveness, more corruption, lower levels of female labor participation and more poverty. At the same time the people in these countries are often dissatisfied with society and life in general (Hofstede et al., 2004). This

is not very surprising since less innovative, more common forms of entrepreneurship take root in these settings. These circumstances encourage a high incidence of small-scale, non-novel self-employment. As countries gain in prosperity, dissatisfaction seems to diminish. The result is a definite decline in the level of entrepreneurship (Hofstede et al., 2004).

Even though Hofstede and his colleagues did not control for different forms of entrepreneurship, one can deduce that as the general level of entrepreneurship declines, the quality of entrepreneurship increases. In other words, forms of entrepreneurship emerge which positively influence the employment rate and national/regional output. This happens when countries become fully industrialized and a service economy sets in, information technology and differentiation of markets create dis-economies of scale and invite new, innovative forms of entrepreneurship. Thus, evaluating whether entrepreneurial activity should be encouraged or discouraged depends on the opportunities made available by economic, political, industrial and cultural forces and how these opportunities interact with the profit-seeking behavior of the entrepreneur and the societal benefits derived from his actions.

A highly complex interaction was laid out in the previous two sections where individual and environmental factors influenced the discovery and exploitation of opportunities. It has been my goal to highlight the many different factors and yet to harness them to create a framework from which we can observe the changing face of entrepreneurship. This framework now comes together in the conclusion.

CONCLUSION

This paper has addressed the issue of effective implementation of entrepreneurship at the bottom of the African pyramid. A set of measures as frameworks have been developed, even if they cannot be seen as panaceas of all the ills and employment problems facing the African continent. Relying on the above frameworks, we learn that from an individual perspective, strengthening individual resources not only strengthens the capabilities of a society but also encourages more lasting forms of entrepreneurship (Shane, 2008). For example, on the individual level, increasing the opportunity to have an education (the higher the better), connect with other entrepreneurs, having had entrepreneurial role-models, having many different career experiences with a deepened knowledge of one industry and having had start-up experience influences the volume and success of new venture creation. Personal capability factors are strengthened by psychological factors such as extroversion, need for achievement, risk-taking, desire for independence, locus of control, self-efficacy, overconfidence, and intuition.

Examining the individual without considering his environmental context is an incomplete intellectual exercise. Therefore, the framework breaks down the environmental context into economic, political, industrial, demographic and cultural conditions. Some of the conditions supporting entrepreneurial opportunity discovery and exploitation are, for example, economic stability with a transparent rule of law as integral aspects of robust entrepreneurial action. Industry conditions that have a high level of R&D intensity or are service oriented tend to be breeding grounds for entrepreneurial endeavors. Demographic conditions like high population density and urbanization tend to support resource collection, the availability of diverse information and knowledge, and larger networks with more structural holes. Cultural conditions with more acceptance of risk taking behavior and failure tend to have more entrepreneurs.

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