

A STUDY OF
THE CHARACTERISTICS AND PERFORMANCE
OF SMALL BUSINESS OWNER/MANAGERS
IN WESTERN AUSTRALIA

*This thesis is presented for the degree of
DOCTOR OF PHILOSOPHY
of the University of Western Australia*

by

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PREFACE - A SUMMARY

Both the purpose and structure of this research study are twofold - a *conceptual analysis* of entrepreneurship in the small business context, and an *empirical study* of the validity of a model of entrepreneurial effectiveness in that same context. The former synthesis, aimed at the production of the model, was considered an essential foundation for the empirical phase. It is intended that the two phases, each providing purpose for, and giving substance to the other, will together result in a complete and balanced study.

A survey of the literature on entrepreneurial characteristics and behavior, and on small business as the most likely venue for such behavior, has revealed a distinct lack of cohesion and direction. Although comprehensive, and rich in diversity, the literature is noticeably fragmented, with many individual research studies being focused on isolated and particular areas of enquiry at the deliberate or accidental exclusion of all others. Consequently the first stage of this study is founded on the author's wish to undertake a thorough analysis of all relevant aspects of entrepreneurial propensity, characteristics and behavior. To this end Chapter 1 examines the nature and role of small business enterprise, recognising that such ventures are one, and probably the primary medium for the manifestation of entrepreneurial propensities. This chapter evokes the conclusion that the quality of entrepreneurial performance is the key factor in the success or failure of small firms. Chapter 2 presents a necessarily comprehensive study of all factors pertinent to the synthesis of a

model or conceptual framework to give substance and direction to the empirical phase. The results of both theoretical and empirical research are used as appropriate to the objectives of this study. In Chapter 3 the model of entrepreneurial effectiveness is postulated and the rationale for the suggested broad relationships outlined.

The empirical phase constitutes a rigorous examination of the reliability and validity of the model as a predictor of entrepreneurial effectiveness, using a sample of 250 operating and failed owner/managers of small firms. Chapter 4 presents a structured series of research propositions and hypotheses, incorporating some of the more significant potential relationships of the many inherent in the model. The arrangement of hypotheses was based on the need to develop plausible and convincing causal sequences. Chapter 5 outlines the methodological aspects of the study, including sample selection, data collection, the development of reliable and valid operational definitions of all variables, scoring procedures and statistical processes employed in data analysis. Chapter 6 offers a descriptive survey of the data on all variables, and analysis of the rationale for acceptance or rejection of all propositions and hypotheses. The study produced certain major conclusions which are discussed in Chapter 7.

The first conclusion is that prediction of entrepreneurial effectiveness in the small business context is feasible, and offers much promise in alleviating economic and emotional distress deriving from small business failure. Second, there would seem to be considerable prognostic and diagnostic potential in the measuring devices used in this study.

Third, psychological and sociological factors appear to be at least as significant as the more commonly accepted experiential and preparatory factors in the prediction of entrepreneurial effectiveness. Finally, the key factor isolated in this study is the individual's ability and propensity to cope with, and work effectively despite the stress inherent in the entrepreneurial role.

This *affective reaction* results in either sound or faulty management judgments, decisions and practice, upon which the fate of the small firm rests.

reverse causation
more likely!

See 8.4-274

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CHAPTER 1 INTRODUCTION

1.1 THE PURPOSE OF THE STUDY

The principal purpose of this research study is to contribute to a greater understanding of the personality, and motivational and experiential factors relating to entrepreneurial behavior, as it applies to ownership and management of small independent business ventures. The emphasis is on behavioral variables and their relation to successful entrepreneurship, rather than on the more thoroughly investigated managerial functions. In general terms, the study method has sought to determine whether or not there is any significant relationship between certain individual characteristics of the founders of small firms and their success/failure records.

More specifically, the study has been designed to isolate and analyse various factors found in the research literature which have been postulated as relevant to the understanding of entrepreneurial behavior. While many of the behavioral variables incorporated into the study have been empirically investigated, they have been so in contexts, and for purposes, that differ from those of this study. Moreover, they have not been synthesized in an attempt to create a testable theory of entrepreneurial behavior. To draw the existing knowledge and relevant factors into focus, a conceptual model of entrepreneurial effectiveness has been proposed, to aid in the formulation and empirical analysis of a theory of entrepreneurial behavior in the small business situation.

There is ample research material on the subjects of entrepreneurship and small business management. There are at least three categories of data. Much of the research literature relating to entrepreneurship has a distinct bias towards laboratory-type experimentation in human motivation and certain personality traits. In particular can be cited the extensive pioneering work of McClelland, Atkinson and their many associates with their empirical research into achievement motivation. There has also been interest in the role of the innovative entrepreneur as a catalyst within the free-enterprise economy. This interest originated with the Harvard University Research Center in Entrepreneurial History (from 1948 to 1958), and has exerted much influence on economic thought during the past twenty years. Finally, there is also available a wide range of research studies of a different kind - enquiries into financial performance, problems and operational techniques relating to small firms. In many countries, governmental agencies, charged with the responsibility for providing training and guidance in small business management, have sponsored research of this type. These three approaches have, separately, amassed an impressive volume of descriptive, empirical and statistical data. The predominant thrust in research activity, judged by the volume of published findings from English-speaking countries at least, has been in the kindred fields of psychology and sociology, from which have come substantial and credible empirical evidence linking various aspects of human behavior (purportedly 'entrepreneurial' in nature) with the individual's psychological and cultural orientation toward achievement drive.

These bodies of knowledge relating to entrepreneurial activity have

not been formulated into a convincing explanatory theory. The literature on entrepreneurship is thus fragmentary, incomplete and, in most part, descriptive. That written by economists and business analysts is generally incapable of being scientifically tested. The approach used by the psychologists and sociologists is on sounder methodological grounds, but rarely have the abundant findings been validated in the actual business situation. No serious attempt has been made to integrate the conclusions of the three sources. There has been a real need to collate these findings and to build from them a conceptual framework which would facilitate the rational disposition and study of concepts and inter-related hypothetical propositions.

A model is an analogy - a simplified representation of a more complex and general reality. A conceptual model is a manageable expression of a broader, more general explanation of phenomena. Models and theoretical structures are founded upon relationships, and this study has been designed to investigate scientifically certain propounded patterns of relationships concerning the behavioral, experiential and performance characteristics of small business entrepreneurs. A number of hypotheses or tentative assertions about the relations between the study variables have been drawn out of the conceptual framework, and then tested by ex-post-facto research. The model and the resultant propositions and working hypotheses are all essential elements of this study.

In discussion of the objectives of non-experimental research, and the method used therein, the matter of causality is frequently raised. Causality is generally inferred if a change in Variable X

consistently produces a change in Variable Y. Causality can be inferred but not observed. It is easy and common to assume that one phenomenon causes another, from observation of their frequent concurrence or chronology. The origin of the belief in the existence of causal relationships is found in personal experience, in that we perform many acts with the intention of producing desired effects. This has led to a common conception of the world around us as a complex system of cause/effect relationships. In early behavioral science research, the emphasis was largely on identifying 'determining conditions' which together made the occurrence of a given event probable. The development of research design during recent years has permitted more frequent and more confident causal inference, even in non-experimental research. Social scientists have made much progress in making survey research an analogue of experimental research.

One of the desired outcomes of this study is the means of predicting, at an acceptable level of confidence, entrepreneurial effectiveness (as measured by the ability to successfully create or acquire a small business and manage it profitably). While variables can be shown, by statistical analysis, to be related, and hence the existence of Variable A used to predict the existence of Variable B (at a stated confidence level), the question of causality is not so readily resolved. There is much difference of opinion about the role of causality in non-experimental (i.e. most social science) research. Labovitz and Hagedorn (1971, p.1) have stated that "The major goal of scientific research is to establish causal laws that enable us to predict and explain specific phenomena." By contrast, Blalock (1970, p.70) has asserted that

Strictly speaking, no proof of causation is ever possible, since there is no way that an investigator can guarantee that there is no variable producing a spurious relationship. This is another way of saying that there is no way of deciding that all possible causes have been controlled.

Causal relations are a sub-class of associations that must meet several qualifying conditions before causality can be inferred with reasonable confidence. These conditions require more than constant conjunction of the several variables. Despite Blalock's viewpoint, in social science research something must be done to convince the reasonable skeptic and the practitioner (often the one and same) that a true cause/effect relationship exists, and not merely a correlate. The social scientist therefore should explore and control as many plausible alternative sources of spurious association as is feasible, given the reasonable constraints imposed by the research design. While the researcher in experimental studies can hold alternative plausible causal variables constant, and manipulate the one(s) he is testing, in ex-post-facto research this control is only possible by the use of appropriate statistical techniques of data analysis.

There are at least four principal requirements which an empirical study must meet to permit the confident inference of causal relationship:

1. *Magnitude and Consistency of Association* Unless two or more variables can be shown to be statistically associated, one cannot be the cause of the other. Both the measured degree of relationship (covariation or concurrence), and the consistency of the relation under a variety of conditions over time, are factors which affect the plausibility of causal inference.

2. *Time Sequence* To establish that A could be a cause of B, then A (the independent variable) must occur or change before B. To determine the chronology of complex phenomena, researchers must often depend on the logic of the situation, observation, theory and/or data analysis.

3. *Non-spurious Relation* If the effects of all relevant variables are eliminated, and the relation between the independent and dependent variables is maintained, then the relation is non-spurious. Controlling for all relevant alternative variables is the basic problem in trying to determine whether or not the interpretation of a relation is spurious. In non-experimental research design randomization is not possible, and selection of control variables must be determined by the researcher. In so doing he should be aware of time sequence, theory and previous empirical studies.

4. *Rationale* The designation of an intervening variable, to connect the dependent and independent variables, greatly aids the plausibility of causal inference.

The author, in seeking to establish a viable predictive model of entrepreneurial effectiveness, has endeavoured to incorporate all the above requirements into the design of the study. As is the case with most social science research, the phenomena under investigation in this study have multiple 'causes', making necessary the use of multivariate techniques of analysis. The most effective method is prediction of the dependent variable by additive combinations of a series of independent variables. Furthermore, multiple R may be interpreted as the amount of variance

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in the dependent variable accounted for by additive combinations of variation in independent variables.

1.2 THE RESEARCH PROBLEM

The role of small business, and that of the small business entrepreneur, in the economic and social welfare of all industrialized countries are greatly under-rated. Despite a recent and timely renewal of interest in the small business sector of the economy, there is still an appalling lack of understanding of, and real concern for, this vital field of enterprise. Boswell (1973, p.14) described the situation in Great Britain with the following words:

Unfortunately, the renewed interest marches hand in hand with a deplorable absence of facts. In this country our knowledge about small firms has for long been abysmal. The structure of this sector, let alone its conduct and performance, has remained murkily obscure. This is partly a legacy of past disinterest.

In Australia also, this ignorance and lack of concern for the small business sector has drawn the attention of several researchers, including Brodribb (1967, p.1) who wrote that

Considering the vast numbers of small firms and their importance, both to our economic life and to the life of the individual, it is surprising that the study of small and medium sized firms and their owner/managers has received so little attention. Our knowledge of the owner/manager, of the 'businessman' as an individual, is practically non-existent.

The numerical significance of small business in the Australian economy, their economic and social contributions to employment, gross national product, the general vigour of the economy and the quality of life, are no less than in other countries. The literature

abounds with analyses of the operations and working problems of large business organisations and, in Australia as elsewhere, the popular view, and that expressed by Lawyer (1963, p.6), is that "small business is just little big business, with small scale problems of the same kind as those facing the larger organisations." Such a misconception is tantamount to "regarding and handling a child as though it were nothing more than a small adult" (*ibid.*, p.17). In large measure, the ignorance and neglect of small business has originated from the widespread attitude that the only difference between large and small business firms is their size. What is not appreciated is the intrinsic nature of the small firm. Unlike the larger firms, "such businesses are extensions of the personality of their proprietors ... they are not institutions as much as they are aspects of individuals" (Chamberlain, 1962, p.49). Thus the entrepreneur warrants intensive study as an individual, rather than as a mere dehumanized agent or mediator between organisational inputs and outputs. He has been shown by several credible studies to be very different from his counterpart in the larger organisation. In a small business, the entrepreneur's personal characteristics, his fundamental motivation, work habits, role perception, attitudes about business management and many other related factors permeate the total enterprise to such an extent that its eventual success or failure is a direct consequence.

A study of business activity must take cognisance of the purposes underlying that activity. Survival, implying growth and development, has been adopted, almost universally, as the legitimate aim of all business behavior. Most theorists have based their justification of this proposition on study of large scale business. What has not been satisfactorily established is whether this generalization

is applicable to small firms as well as large. Fargher (1971) has suggested that an appreciable proportion of small manufacturing entrepreneurs, for various reasons, do not want their firms to grow. Penrose (1966, p.32) suggested a degree of fatalism, in that

It may be that most firms do not grow, that failure is more common than success, that over the long, long period, firms, like Schumpeter's lemmings, follow each other in succeeding waves into the sea and drown, or even that 'death and decay' are 'inherent in the structure of the organisation'. These things we do not know. We have neither the facts to disprove them nor convincing theoretical presumptions to support them.

Penrose has stressed that the rate of growth of small firms depends primarily upon managerial factors. She has offered a thesis for business growth, consistent with the planning function and with "productive opportunity" (*ibid.*, p.31) Growth depends on the availability of managerial capacity - "a comparatively continuous situation in the large firms, [whereas] in the small firm this is frequently created through overtime spurts" (Fargher, 1971, p.15). Chamberlain (1968) discredited the maximization concept and, following Simon (1957a; 1957b; 1959), proffered the satisficing of aspiration levels as a substitute. Fargher (1971, p.17) has noted the change of emphasis when he wrote that

The environment in Chamberlain's theory is given much more prominent and complex position than in traditional economic theory, and the entrepreneur is pictured as adapting to or altering this environment ... through bargaining procedures.

Thus, environment, in Chamberlain's model, relates to satisfaction of a given level of aspiration, attained through balancing cost and revenue flows by adapting to, or changing, the firm's

environment. The introduction of aspiration levels into the analysis of organisational behavior leads directly to stress on psychological studies of entrepreneurship - achievement motivation in particular. This aspect of the personality of the entrepreneur is a significant variable in this study. The impact of environmental factors on the business organisation has been given prominence in recent years. The Katz and Kahn (1966) statement on open-system theory recognises the "close relationship between a structure and its supporting environment" (p.9). By its very nature, the small firm is both dependent on, and subject to, the vagaries of its environment, probably to a greater degree than the larger enterprise. The extent to which the entrepreneur is able to recognise and manage the environmental factor, largely determines the growth potential and ultimate success of his venture. Such ability is subsumed, for this study, in the role perception variable.

In general terms, the literature suggests several key factors or premises, that are clearly relevant to what could be proposed as a theoretical model of small business behavior. Fargher (1971, pp.24-25) has expressed these central factors thus:

1. An aim, purpose or objective of business connected with growth and, in the case of small business, these are connected also with the entrepreneur or owner/manager and his aspirations.
2. A physical resource factor, sometimes abstracted to capital, even completely to it by some writers.
3. A management or personal factor of variable content and importance and including for the small business such aspects as leverage, delegation, adaption to environment.

This study is concerned particularly with the first and last of these three suggested factors. It has been designed to investigate the psychological, sociological and experiential origins and development of the entrepreneur who has created or acquired his own business. The more that can be understood about the entrepreneur, the more that will be known about the nature and functions of the small firm. There should come answers to questions about the reasons for the steady supply of new small firms, the real 'causes' of business failure, the factors underlying the apparent decline in the numerical importance of small business in some countries, and the nature and consequences of management deficiencies in small firms. Research attention must focus on the entrepreneur if small firms are to fulfil their true potential in the economy, and in society at large.

It has been well substantiated that small firms operate under some severe disadvantages, due in part to their size. Such firms are the more vulnerable to competitive pressures and other constraints if owner/managers are deficient in basic management skills. Dun and Bradstreet (1970) have reported that as many as 95% of all business failures are directly attributable to management deficiencies, including lack of line experience, lack of managerial experience, unbalanced or inappropriate experience, sheer incompetence and neglect. Mayer and Goldstein (1961) have shown that managerial experience and ability, associated with motivation and personality, were factors significantly related to business survival in their sample. A study of the performance of small business in Australia, commissioned by Nixdorf Computer (Aust.) Pty Ltd (1974) has pinpointed specific areas of management

deficiency, and attributes to these the declining profitability and reduced share of economic activity of small business in this country.

The magnitude and complexity of the research problem are significant. The nature of the small businessman, his independence and individualism, make him difficult and often unwilling to subject himself to public and research scrutiny. Secrecy, and an almost obsessional fear of interference from outside the firm, are characteristics that have deterred many studies. Statistics on small business in Australia, range from fragmentary to non-existent. Exemption from the requirement to submit annual accounts and reports and the multiplicity and dispersion of small firms both contribute to a serious paucity of reliable statistical data about them.

There are presently about 350,000 business firms in Australia, around 25,000, or 7.5%, being in Western Australia.* From a postal survey of 2,000 randomly selected firms in Western Australia in October 1973, the author has collected data which confirm that the vast majority of these firms are small by any reasonable criterion. These figures are comparable with those from other countries. Although the line between small and medium-sized firms may be arbitrary, and can justifiably vary according to industry groups, accepting all firms with 50 or fewer employees as small, produces a total of 330,000 and 24,000 small firms in Australia and Western Australia respectively. To use a sample of 10% of

*The bases for these figures are given in Section 1.41 below.

the total population of small firms in the State, would create a task of immense proportions, particularly when a personally conducted and rather intensive interview is required.

To highlight the extent of the research problem even further, during recent years Western Australia has experienced rapid economic growth and in 1972-73 an estimated 3,000 new business ventures were founded, and actually opened their doors in trading with the public at large and/or with other firms. During the same year a total of 734 bankruptcies and arrangements with creditors was recorded by the office of the Registrar in Bankruptcy and the Official Receiver. It is also reasonable to assume that many other firms closed because of financial failure or difficulty (or impending failure) and never came under the provisions of the Commonwealth Bankruptcy Act (1966-71). It has been suggested by officers of the bankruptcy administration that the real number of business failures in Western Australia in 1972-73 would probably reach 2,000. The author has investigated many aspects of business failure in a study of 863 formal bankruptcies, assignments and arrangements recorded in two Australian cities (Perth and Melbourne) from July 1960 to June 1963 and from July 1970 to June 1973. Detailed findings, given in Section 1.5, indicate that 85.7% of all failures through financial difficulty involve small firms with less than 20 employees, assets averaging \$7638 and liabilities averaging \$11,913 per firm. The 863 failures resulted in 6943 individuals becoming unemployed and caused financial difficulty to a reported 9497 creditor firms. A total of 1126 families suffered the indignity, economic loss and psychological suffering of business failure. Ill-health and a distinct pattern of emotional

stress were evident in a large number of the affected families. Marital tension was also apparent in 9% of the cases studied.

In the author's study of Australian business failures 27.6% of the sample survived for less than one year and 69.1% failed within five years. Many of these firms it would seem, with hindsight, never had a serious chance of survival. Any research that may lead to a means of predicting entrepreneurial success in the small business situation, has the potential for alleviating much economic, social and psychological distress. Aspiring small business founders, before committing finance and starting operations, may be able to identify personal inadequacies, and either correct them, or, by modifying their aspirations, move into other fields of endeavour.

1.3 DEFINITIONS

Any researcher, in order to be able to organise his data so that he may more readily discern relationships between them, must make use of concepts. As suggested by McClelland (1951, p.17) a concept is "a shorthand representation of a variety of facts. Its purpose is to simplify thinking by subsuming a number of events under one general heading." Some concepts are very close to the objects, phenomena or facts they represent, but others cannot be so readily related to the things they are intended to depict. There are many elusive concepts, among them being 'role', 'motivation', 'perception' and 'success' - all of which feature in this study.

The greater the distance between one's concepts, or constructs, and the empirical facts to which they are intended to refer, the

greater the chance of their being misunderstood, or carelessly used. Accordingly, the greater the care that must be given to defining them. They require definition in abstract terms (to link the study with the body of knowledge which gives birth to the research), and in terms of the operations which will be used in the study. The quality of any research depends, not only upon the adequacy of the research design, but also upon the fruitfulness of the measuring instruments used. Vital for any meaningful measurement are clear definitions of all concepts involved. The researcher must first know what it is he wishes to measure and study.

Hempel (1952, p.6) has stated that

Every definition that serves a scientific purpose conceals within itself a theoretical proposition - namely, that the things, processes, or events that are encompassed by the definition belong together in the sense that treating them as mutually equivalent under the definition facilitates the discovery of lawful relationships and the organisation of data.

Consequently every effort has been made, throughout this study, to define adequately all objects, phenomena and factors involved. Some definitions will arise out of the survey of relevant literature, and others from the process of determining operational definitions of the variables. At this point, it is appropriate to offer several definitions supported by discussion and rationale.

1.31 *SMALL BUSINESS*

This discussion offers an evaluation of the various criteria,

currently in vogue, for determining whether or not a business enterprise is small.

The term 'small business' is used so frequently that its meaning is rather taken for granted. Yet the term has vastly different connotations for different persons and purposes, and there is little agreement about how 'large' and 'small' business should be differentiated. There are various criteria which have gained fairly widespread acceptance - for example, number of persons employed, sales volume in dollars and profits earned. However, such quantitative yardsticks have been found lacking, and, in the interests of rational analysis of small businesses and their problems, more pertinent criteria are justified.

There is a need for criteria which will serve to segregate rationally the small enterprises from the remainder of the business population, for the purposes both of academic enquiry and practical considerations.

1.311 Quantitative Criteria

Historically, the criteria most commonly used are quantitative in nature. In earlier years, most evidence of the need to define small business has come from various officials, agencies and departments of the Government of the United States of America, since it has been in that country that a strong lead has been taken in the study of business problems which are peculiar to its six million or so small enterprises.

As early as 1938, a seminar of small business men in Washington heard a statement from one Jesse H. Jones, who owned considerable business interests, and who was, at that time, Chairman of the United States Reconstruction Finance Corporation. He distinguished rather crudely between large and small business as follows:

By little business is meant something comparative or relative. Organisations like General Motors, big Steel, little Steel, and so forth are big business - the rest of us are little business ... (Jones, 1938)

About the same time, Ernest G. Draper, the United States Assistant Secretary of Commerce, in a somewhat more exacting statement, classified the "more than 90 per cent of the manufacturing firms employing less than 500" as small business. (Elliston 1938).

The United States Department of Commerce has long used quantitative yardsticks for classifying small business. In 1939 the Census Bureau of the United States Government published figures entitled Percentage of Small Business in U.S., in which details were given of the percentage of all United States business enterprises which were classified as 'small'. Manufacturing firms were regarded as being small if they employed less than 100 persons. This provided some flexibility on three other criteria - annual dollar sales from \$500,000 to \$1 million, total assets averaging around \$250,000, and net worth about \$100,000.

For wholesalers, the United States Department of Commerce has used sales volume as the yardstick, and adopted \$200,000 as the maximum figure for small business. Retail, Service and Construction firms, Hotels and Amusements were likewise classified on the basis of sales income with the figure set at \$50,000. This

income was found to be obtainable by firms with less than five employees in retailing, but usually required twenty or more in some service-lines.

The United States Bureau of Labor Statistics (BLS), from about 1940, adopted a variation of the above-mentioned Department of Commerce measures. The Bureau determined an average number of persons employed in firms in various industries, and then classified as 'small' those firms which employed less than the average. From the 1939 Census of Business figures, the Bureau calculated an average number of persons employed in manufacturing firms at 43. Thus, firms with less than 43 employees were classified as 'small'. The Department of Commerce, at about the same time, used 100 employees as the dividing line for manufacturing firms.

In wholesaling, the Bureau calculated an average of \$209,000 in sales income, which is reasonably close to the \$200,000 figure used by the Department of Commerce. For independent retail stores, the Bureau's average was annual net sales of \$20,000 (as against \$50,000 used by the Department of Commerce); for retail chain stores the average net sales was \$74,000; and for the services group the average sales income figure was \$5,000 (compared with the Department of Commerce figure of \$50,000).

In the early 1940s there appeared on the United States scene other variations in small business classification criteria. For example, in 1943-1944 the Retail Credit Survey introduced a more flexible approach, realizing the need for differentiation of

firms within broad industrial groupings. Accordingly, \$50,000 in annual sales income was adopted for "heating and plumbing equipment dealers, automobile tire and accessory stores" and a figure of \$1 million was accepted for department stores - all within the retailing group. (Federal Reserve Bulletin 1944, p.652).

Even greater flexibility was advocated by the Federal Trade Commission of the United States in its investigation into the Relative Efficiency of Large, Medium-sized and Small Business, when it was stated that

it is evident that a different classification of size is needed for every industry, since size is relative to the industry ... The size of every plant and company, as measured by quantity of production or size of investment, was first set forth in a table. The lines used for the three classifications were put where a considerable break in the series was noted. For example, an attempt was made to draw the line between large and medium-sized corporations in such a way that the smallest large corporation was considerably larger than the largest medium-sized corporation. (Federal Trade Commission, 1941, p.16).

In 1944 the 78th Congress of the United States provided two rather more explicit definitional guidelines, both of which were based upon quantitative criteria. In the War Mobilization and Reconversion Act of 1944, a bill introduced by the Senate Small Business Committee, whose stated purpose was "to stimulate and encourage small business enterprise" (Public Law 458, 1944, Sec. 1913), offered the following criteria for the definition of small business:

Any enterprise for profit which,
If engaged primarily in production for manufacturing,
shall have employed 500 persons or less for the
calendar year next preceding ... or
If primarily a wholesale establishment, whose net

sales shall aggregate not more than a million dollars for such calendar year; or
 If primarily a retail, amusement, service or construction establishment, whose net sales or receipts for such calendar year shall aggregate not more than \$250,000.

PROVIDED that [the business] shall not include any business concern which [is] a dominating unit in its trade or industry or otherwise under the management or control of such dominating unit. In making such determination ... shall consider the comparative size of establishments in the particular trade or industry involved.

In connection with a provision "to give special consideration to small plants in the allocation of surplus war materials", the above mentioned Reconversion Act stipulated that

for the purpose of this title, a small plant means any small business concern engaged primarily in production or manufacturing either employing 250 wage earners or less, or coming within such other categories as may be established ... Such other categories should be defined by taking into consideration the comparative sizes of establishments in a particular industry as reflected by sales volumes, quantities of materials consumed, capital investments or by other criteria which are reasonably attributable to small plants rather than medium- or large-size plants. (Public Law 458, 1944, Sec. 204).

Even at this early stage, it was clearly being realized that the use of blanket criteria, such as the number of wage earners employed, or sales income, was giving rise to misleading classifications. There was a growing need to look at the particular features of industrial groupings in constructing yardsticks for determining size categories of business enterprises.

The problems of differentiation were being further confounded when multiple criteria were offered. One author has suggested the following guidelines:

TABLE 1.1 CRITERIA FOR BUSINESS SIZE CATEGORIES

SIZES	SALES PER ANNUM	NET PROFITS	NO. OF EMPLOYEES	TOTAL ASSETS
SMALL	To \$250,000	To \$25,000	To 100	To \$250,000
MEDIUM	Above \$250,000 to \$5,000,000	Above \$25,000 to \$500,000	Above 100 to 2,500	Above \$250,000 to \$5,000,000
LARGE	Above \$5 million	Above \$500,000	Above 2,500	Above \$5 million

Source: Weisman, 1945, p.9

However, to attempt to categorize firms on any or all of these bases, without regard to industrial groupings, is most unreasonable, since not all industries are equally labour- or capital-intensive. Mills (1951, p.5) has suggested the number of employees as the most reasonable quantitative criterion:

It should be emphasized that 'the number of employees' has not been used as a factor to determine small size but as the most convenient index for measurement of size.

Despite his apparent justification for the use of the number of employees criterion, Mills subsequently stated that

one of the more important disadvantages of using 'number of employees' as an index is the fact that output may vary considerably for different establishments with the same number of employees engaged primarily in the production of different products classified in that industry. (Mills, 1951, p.6)

In more recent years, statistical analysis of small business has mostly been based on the Department of Commerce criteria (see page 17 above). In 1949 these yardsticks were increased to sales of \$500,000 and \$100,000 for wholesale and retail enterprises

respectively. Using these new, and the other original criteria, the Department of Commerce in 1949 stated that

small business represents 93% of all business concerns, employs 45% of the workers, and does one-third of the total business of the country. (U.S. Department of Commerce, 1949, p.30)

While the most common criteria appear to have been the number of persons employed and annual sales income, other quantitative measures have been adopted for various purposes. Several of the more popular of these are value of total assets and net earnings. The United States Bureau of Internal Revenue has equated a manufacturing plant with 100 employees with one owning total assets of \$250,000. This latter figure is frequently used by the Bureau for separating small from large enterprises. The same total assets figure has also been used by the Securities and Exchange Commission, the Temporary National Economic Committee and the National Bureau of Economic Research.

The weakness suggested above, with relying on sales volume or number of persons employed as criteria for all industries, also applies to the use of total assets. Clearly some industries and types of business are labour-intensive and others are capital-intensive. For example a rented share broker's office (with little more in tangible assets than its office furniture and equipment) is capable of producing the same dollar income as a small but technologically complex manufacturing plant with tangible assets worth millions of dollars. As with the employment and sales income criteria, the asset value yardstick is only generally valid when used within the one industry.

The use of net profit or income, as the classification measure, has been adopted by the United States Temporary National Economic Committee as one of its yardsticks. However, the major drawback is that profits can fluctuate quite widely from one year to another, and this will bring into and take out of the 'small' category, firms which, respectively, have no right to be there, or have every right to be there, when other criteria are applied. This criticism can also be levelled at dollar sales volume as the measure, although to a lesser extent.

Using the foregoing facts, one author has presented a table showing

a rough composite of the limits of size commonly employed in official data to identify firms that are taken to be unquestionably within the classification of small business:

TABLE 1.2 SMALL BUSINESS SIZE CRITERIA, BY INDUSTRY

CRITERION	MANUFACTURING	WHOLESALE	RETAIL/SERVICE
Number of employees	100	10	10
Sales or receipts	\$ 500,000	\$200,000	\$ 50,000
Total assets	250,000	50,000	15,000
Net worth	150,000	25,000	10,000
Net profits	12,500	10,000*	3,500*

*Includes owners' compensation

Source: Kaplan, 1948, p.15

There are then, real difficulties in effectively using such quantitative measures as criteria for the classification of firms as small or otherwise. Criteria currently employed differ according to industry, so that a firm classified as small in one

industry could be considered as large in another. A retail enterprise with annual sales exceeding \$50,000 may have growing pains and problems similar to those experienced by a manufacturer with 95 employees - the former would normally be classified as large and the latter as small business.

Ketchum (1944, p.68) has stated that

in some industries there can be no large firms because of conditions in the industry, especially with respect to the nature of the market. In other industries the advantages to be derived from production on a large scale make impossible the existence of small enterprise.

This comment, implicitly suggesting a differential treatment of industries, is realistic, and recognises that large-scale economies have removed more manufacturing enterprises from the general sphere of 'smallness' than is the case with retail and service businesses. Using quantitative measures, the classification procedure has become flexible enough to include manufacturers with 100 employees and sales income of \$500,000 as small business, alongside the 1 or 2 man retail store.

Even within the same industry, there is sufficient variation between business firms to justify serious reservations about the use of these quantitative measures. Kaplan (1948, p.16), on this point, quoted the wholesale drug business in the United States where there are two main types of enterprises:

One is the so-called 'service' or regular pharmacy wholesaler; the other deals mainly in cosmetics and sundry specialties carried in drug stores ... In the first group ... only 6 per cent of the drug wholesalers ... would qualify as small business by the Commerce Department's test.

In the second (drug specialties) ... over 92% come inside the small business ceiling of \$200,000 in sales volume. Clearly, our conclusion as to smallness or bigness of business must be conditioned by the character of the particular field in which it operates.

The United States Small Business Administration was authorized by the Small Business Act of 1953 to use the number of employees and sales volume as criteria for determining whether a firm qualified as small. The Small Business Administration, in its lending programmes has used the following guidelines:

Retailing and Services	Annual Sales \$1 million max.
Wholesaling	Annual Sales \$5 million max.
Manufacturing	250 or fewer employees.

The literature offers numerous examples of the arbitrary nature of such definitions, and the unusual classifications that are possible. For example, in 1966, the Small Business Administration classified American Motors Corporation as a small business and thus eligible for certain privileged treatment. This followed the September 1966 revision of criteria, when, with a view to improving competition, it was announced that, in addition to the basic size guidelines, companies would be treated as small businesses if their share of their industry's total domestic production were less than a certain percentage. In the case of the automobile industry the percentage figure was 5%, and American Motors (with approximately 30,000 employees) during the first eight months of 1966 achieved 3.2% of the total sales of the industry, thereby being classified as small.

The Small Business Administration classification standards are

numerous and complex. Styled after the system proposed by Mills (1951), the scheme is laid out in Small Business Size Standards (1959). In the Machinery section of manufacturing there are no less than 41 sub-classes listed - each with its own particular size-criteria.

It is shown by the foregoing evidence, that complete or even major reliance on quantitative criteria is far from satisfactory in producing a generally acceptable classification of business enterprises on the basis of size. As early as the 1940s, there was apparent, a growing recognition of the need for a more stringent and realistic classification system. An example of this feeling appears in the 1944 Reconversion Act, relevant sections of which are quoted on page 19 above. There would appear to be three factors in the thinking of the legislators - limitation in absolute size, smallness relative to others within the same industry, and independence of ownership and operation.

The first two of these criteria, as has been indicated in the preceding pages, can provide a classification method which, while satisfactory for some business firms and for some purposes, does not provide the necessary unambiguity for others. The problem has been described by Kaplan (1948, p.10) thus:

The dividing line between 'large' business and 'small' business is ... higher for manufacturers than for distributors, higher for wholesalers than for retailers, higher for dealers in commodities than for dealers in services. It is not possible to draw any mathematical boundary to take in all firms that could reasonably be classed as smaller business for some purposes, without including a number that could, just as reasonably, be classed as 'medium' or even 'big'. We have to fall back on an

assortment of criteria that provides elastic limits for small business. If the obviously small units are put in one sector and the giants in another, we can recognise a middle-size group that shares the headaches of small business for some purposes and of big business for others.

1.312 Qualitative Criteria

The 1944 Reconversion Act of the United States Congress introduced the independence criterion in recognition of a qualitative difference between very small business enterprises and the rest of the business population. At this time there was almost total reliance on quantitative measures, and according to Phillips (1958, p.12),

these broad definitions of small business, since they include firms very much larger than the small enterprises which make up the vast majority of the business population, have led those who have concerned themselves with the subject of small business to concentrate, consciously or otherwise, upon the characteristics and problems of the larger firms.

Kaplan has agreed with this viewpoint:

A palpable fact is that really small-size business units - the establishments of less than eight employees, which make up 90 per cent of all business firms ... are not the ones that account for the bulk of the public discussion of small business and its problems. (1948, p.19)

So-called 'small' manufacturers - many of which were huge by comparison with the small corner grocery store - had been receiving the lion's share of interest and attention. Records of the Small Business Committees of the United States Congress, and of assistance rendered under the 1944 Reconversion Act, clearly indicate that the larger firms within the quantitative small business classification were the ones whose interests were

being served, and the really small enterprises (constituting over 90% of all business firms) were being largely left to fend for themselves.

The introduction of non-quantitative criteria into the 1944 Reconversion Act may well have been stimulated by a definition of small business contained in the 1941 Temporary National Economic Committee's Monograph No.17 ("Problems of Small Business", p.247), viz:

The qualities implicit in small business are those of the self-determined or independent owner-manager. The typical small business unit is both owned and directly operated by its active proprietor or partners, with no overhead affiliations or control. Growth in size involves successive stages of hired management and sub-management, increasing remoteness of ownership from management, division of ownership among many persons, absentee ownership, and the impersonal quality commonly associated with very large enterprise.

A similar train of thought was evident in 1947 when the Committee for Economic Development (1947, p.14) offered the opinion that a small business is characterized by at least two of the following key features:

1. Management is independent. Usually the managers are also owners.
2. Capital is supplied and ownership is held by an individual or a small group.
3. The area of operations is mainly local. Workers and owners are in one home community. Markets need not be local.
4. Relative size within the industry - the business is small when compared to the biggest units in its field. The size of the top bracket varies greatly, so that what might seem large in one field would be definitely small in another.

This set of characteristics covers most of the features of small business that give rise to the special problems and needs of the small, as compared to the large, business enterprise. While the use of any of these criteria, for the purpose of classifying any business unit, may not be as precise and clear-cut as the various quantitative measures discussed above, there can be no doubt that any firm that adequately meets these requirements is undoubtedly small in nature.

The United States Selective Service Act of 1948 offered support for some of the features suggested by the Committee for Economic Development:

For the purposes of this section [section 18 of the Act] a business enterprise shall be determined to be 'small business' if (1) its position in the trade or industry of which it is a part is not dominant, (2) the number of its employees does not exceed 500, and (3) it is independently owned and operated. (Mills, 1951, p.23).

In 1953 the Congress of the United States passed legislation to create the Small Business Administration, and in so doing established guidelines for classification of business enterprises. The Small Business Act of 1953 concurred that a small business is one which is independently owned and operated and not dominant in its field of operation.

Hollander (1967, pp.4-5) has emphasized a minimum size requirement, as well as a recognition of the value of qualitative criteria. In offering a "functional, analytical definition", he has stated that small business

refers mainly to enterprises that:

1. are businesses, in the sense that they involve all or most of the business functions and decisions concerning production, marketing, financing and management; and
2. do not exceed a size which, considering the nature of the business, permits personalized management in the hands of one or a few executives, as opposed to institutionalized management characteristic of larger enterprises.

Hollander's definition expresses the essential nature of small business which is propounded by this study. It recognizes that neither number of employees, nor value of assets, nor volume of sales nor income earned, alone, can satisfactorily delineate 'small business' in the context of this study.

Two recent and significant studies of small business have adopted qualitative guidelines to define their subjects. The Bolton Committee of Inquiry on Small Firms in Britain recognized that the exclusive use of quantitative criteria ignored the social and human aspects of small firms. The Committee accepted

a definition which emphasized those characteristics of small firms which might be expected to make their performance and their problems significantly different from those of larger firms ... three main characteristics had to be taken into account. Firstly, in economic terms, a small firm is one that has a relatively small share of its market. Secondly, an essential characteristic of a small firm is that it is managed by its owners or part-owners in a personalized way, and not through the medium of a formalized management structure. Thirdly, it is also independent in the sense that it does not form part of a larger enterprise and that the owner-managers should be free from outside control in taking their principal decisions. (Bolton Committee, 1971, p.1)

These three features were regarded as an "economic definition", and the Committee, realizing it impossible to find quantitative

measures of small firms defined in this way, adopted a simpler "statistical definition" (Bolton Committee, 1971, p.2), whose bases were varied for different industrial sectors.

In Australia, the Committee on Small Business (the Wiltshire Committee) recognized one of the essential features of small enterprise when it defined a small business as one

in which one or two persons are required to make all of the critical management decisions - finance, accounting, personnel, purchasing, processing or servicing, marketing, selling - without the aid of internal specialists, and with specific knowledge in only one or two functional areas. (Wiltshire Committee, 1971, p.16)

The Committee suggested flexible interpretation of its definition and that "normally the conditions defined will be found to exist in the majority of enterprises having less than 100 employees". (*ibid.*)

'Small business', for the purpose of this study, is self-initiated, self-managed and largely self-financed. The firms that are the primary concern of this research task are identifiable by certain characteristics which do not lend themselves to quantification. They are, first, businesses as evidenced by their range of entrepreneurial and managerial functions. They are small, as indicated by a number of features which are peculiar to business enterprises that do not normally exceed certain size criteria. This emphasis does not limit the study by arbitrary quantitative restrictions, but rather, allows examination of the essential characteristics that determine the nature of small business, and distinguish it from larger enterprises.

The definition of 'small business' for this study, includes firms which have the prescribed characteristics, regardless of whether they are larger or smaller than other firms in either the same or other industries. The smallest firm in an industry of large firms (e.g. mineral extraction or automobile manufacture) will possibly be a large firm because it does not possess the necessary qualitative characteristics, and is excluded by the present definition. Likewise, the largest firm from an industry of small firms could well qualify as 'small' under this definition.

The Hollander definition (see page 29 above) points to the questions of whether a minimum size of small business is worthy of consideration. He has indicated that a substantial proportion of retailers and services are self-employed persons with no employees. The question thus raised is - should such 'firms' be regarded as small businesses? The self-employed person will operate and manage the business; he will be completely responsible, independent and involved. His success will depend very much on his personal characteristics as well as on his business knowledge and skill. The one missing feature is that he will not have to manage the work of other people. For the purposes of this study, such a person will be regarded as fitting the definition of small business.

In stressing the descriptive, non-quantitative characteristics in small business classification, there are some disadvantages. There is some loss in precision of delineating small business. The suggested definition is ambiguous in its application to some

segments of the business population, particularly those firms which exhibit some but not all the prescribed characteristics. These marginal firms may be recognised statistically, and for various statutory purposes, as small business, but in fact differ in some important respects from others, which are similarly recognised. Of particular interest are the self-employed, and those firms whose activities and size tend to remove them from the 'small' category and place them in the 'medium-sized' category. It is not easy to determine where 'small business' ends and 'medium-sized business' begins.

Despite these problems, one consequence of defining 'small business' in terms of its unique characteristics, is the realization that the characteristics, problems and opportunities of small business are not merely small scale versions of those of big business. Some of the problems, and many of the opportunities, confronting small firms, exist because of the presence of big business, but the problems and opportunities are peculiar to the small species. It is hoped that a thorough analysis of the question of defining small business, *vis-à-vis* big business, will point the way to the need for sympathetic attention to the problem of small business failure. To understand the intrinsic causes of entrepreneurial failure, means a study of the nature of small business. A definition based solely on quantitative measures will not suffice.

Clearly, such statements as those mentioned above, distinguish small firms, which are owned and operated by one or two persons, and characterized by an absence or near absence of paid labour,

and the direct participation of the proprietor(s) in the work of the business, from those which have 100 or more employees. A meaningful approach to the problems of the really small business enterprises will not be possible, until this distinction is recognised and analysed. Numerical criteria, applied to all firms (or even industrial groupings), irrespective of industry, time, state of development, method of operation or other relevant factors, do not give very precise or judicious distinctions in many instances. The quantitative measures ought to be adopted to remove from the small business category, any firm which is beyond a certain prescribed numerical size (whether in terms of sales income, number of employees or asset value), but qualitative criteria should then be applied to remove other firms, which meet the numerical test(s), but which are characterized by features that are not those accepted of the 'true' small firm. In other words, both sets of criteria should be used in the interests of gaining greater understanding of, and assistance for, the really small firms, which constitute the vast majority of all business enterprises in Australia, and in every other country. "It is not surprising that the term 'small business' is sometimes called a slogan and not a description of an area of enterprise." (Kaplan, 1948, p.21).

Acceptable qualitative criteria would include the following:

Independence

A consistent requirement throughout various legislative and other statements is that small business enterprises function independently of any management or control by a dominating unit. Affiliation with a larger firm (or parent company) naturally

implies assistance with finance and/or management, and consequently control. Such assistance clearly differentiates a firm from those which are forced to operate for many months on a 'trial-and-error' or 'hand-to-mouth' basis. The affiliated or franchised firm would not face the growing pains and initial problems and setbacks of truly independent enterprises. The test of independence is difficult to administer, but firms which are unable to prove that they are not under the control (in any form) of another business enterprise, must be excluded from the small business category.

Limited Role of Paid Employment

A small business has either a total absence of paid labour or the number of employees is very small. As the earlier part of this section indicated, there is no unanimity about what number of paid employees should be accepted as the demarcation between small and larger business. The likelihood of a firm employing less than 4 persons will depend upon the industry, there being far greater likelihood in retailing and services. Often small firms, particularly in retailing and services, make extensive use of unpaid or nominally paid family labour, which further distinguishes them from the larger 'small' firms. Where paid labour is employed, it serves in a capacity supplementary to the work of the proprietor(s). The key point here is that the number of employees should be small enough to allow the employer to be involved in the work of the enterprise, and to allow him, directly and personally, to supervise the work of his employees.

Direct Participation by the Owner(s) in the Work

A direct corollary of the preceding requirement is that the owner

is very much involved in the actual work of the business. It is difficult to be able to specify the desirable contribution by the proprietor to the work effort, since this will depend upon his skills, the nature of the firm's work and the amount of supervision and other managerial tasks he must perform. The German economist Lexis (1892, p.65) stipulated that an enterprise is small only if the entrepreneur or proprietor "works with his hands or directly serves his customer". "He does not specialize in management and superintendence and his employees are assistants to him in his role of the principal worker" (Phillips, 1958, p.13). In the larger enterprise, with larger numbers of employees, it becomes more and more necessary for the owner to devote time to the direction of work and the supervision of his labour force. Many small businessmen express real trepidation at the prospect of growth to the point where personal control over, and oversight of, every aspect of the business will become impossible. It would seem that the most common proprietorial work role is that of selling - a quite natural matter when one considers the role of small business in the economy and the entrepreneur's strong desire to develop favourable relations with his customers.

A Minimum of Specialized Management

Since employees are limited in number, the managerial/supervisory role of the owner is entwined with his occupational functions, such as to be almost indistinguishable in many instances. There is little evidence of a distinct management function, and often there is no manager/supervisor other than the owner(s). There is, in fact, such a simplicity of organisation, that there is an identity of ownership and management. For the owner, the

business is both a job and an investment. One outcome of this feature is that owners are forced (both by financial restrictions and by the nature of the entrepreneurial role) to become 'Jacks-of-all-trades', and, too frequently, masters of none. A substantial majority of all business failures occurs within the first few months of operation, and it is postulated that inability to cope with the variety of managerial functions, and operating in the unfamiliar role of sole risk-taker together lead to most failures.

Limited Growth Motivation and Capability

Without taking in partners, or seeking public subscription of funds (and thereby probably becoming 'large' by quantitative criteria), small business entrepreneurs are very limited in their capacity to expand operations. Short-term credit, from bankers and creditors, frequently supplements retained earnings which are ploughed back to provide adequate working capital. The fact that so many firms are established largely on borrowed funds also limits the owner's opportunities for access to funds for expansion. Contrasting with the expansion tendency of larger enterprises is the relatively static nature of very many smaller firms. Many owners have no ambition to expand their operations, and are content to function as a source of family subsistence. Their prime motivation is the provision of an adequate income, and since more profitable speculative ventures are prone to risk, accumulated profits are unlikely. This reluctance to expand is understandable for another reason - as mentioned above, growth will force the working proprietor into increased supervision, a role for which he is too often ill-prepared and in which he is so often uncomfortable. There is also a natural resistance to losing

partial control of one's business to salaried managers.

Owner's Personal Relationships with Employees and Customers

Because the owner is directly and actively engaged in the firm's operations, he maintains a close and personal affinity with his employees. He normally selects his employees, and works at building a team spirit, by striving for and expecting mutual loyalty. This throws a considerable onus on the proprietor since he must be able to engender the necessary enthusiasm, devotion and loyalty in his employees, while carrying the ultimate responsibility and risk for the total enterprise. Once growth creates the need for employing specialized managers (for example a workshop foreman or senior salesman with supervisory responsibilities), the personal bond is broken (or at least weakened) and the firm has acquired some of the features of big business. Personal association with the owner also applies to customers. Particularly with firms specializing in personal service, the inability to 'see the boss' frequently turns potential customers away. The ability to provide personalized services has long been lacking with larger business and it is for this very reason that many smaller firms are established and flourish.

Affiliation with and Dependence upon the Local Community

The small business proprietor typically is well known in his district, suburb or community. He will frequently seek to identify himself with community organisations and causes. There is a popular allegation that businessmen often join clubs and associations to make contacts which may prove beneficial to trade. Without denying this (at this point in the study), it is nevertheless a fact that a majority of businessmen are gregarious

and public-spirited - they are frequently benefactors of needy causes. Small business depends for its very existence upon the market available within and near to the local community. Some look to exporting when such a market is found to exist, but this is often a sign of growth which tends to take a firm out of the 'small' category. The employees invariably come from the local area. In its total function the small business ordinarily has a direct and intimate association with the growth and well-being of the community in which it is situated.

Criteria Used to Classify Small Business in this Study

This study is concerned with manufacturing, retail, wholesale and service enterprises, and, in selecting a suitable sample, the following criteria were applied:

Number of Employees	.	.	.	.	not above 50
Sales Income (per annum)	.	.	.	.	limit of \$1,000,000

The justification for the above specific figures is that from a close investigation of the business information reports made available, in confidence, by several credit institutions, firms which fall within these quantitative limits possess most or all of the suggested qualitative characteristics, and consequently can safely be classified as 'small'. Thus all firms in the sample used in this study are, or were, independent of any other controlling organisation, owned and worked by one or several proprietors, directly involved the proprietor(s) in the work, employed no specialist management, had definite growth limitations, were local in character and displayed close relationships between owner(s) and both employees and customers.

1.32 ENTREPRENEUR

The term 'entrepreneur' will be discussed and analysed, in some detail, in subsequent sections of this thesis. However it is appropriate at this point to offer a working definition. An entrepreneur is an 'undertaker' or 'enterpriser', the English term most nearly approximating the accepted sense of the word being 'projector' - one who projects an idea or scheme into the future and backs his judgement with innovative action.

For the purpose of this study, an entrepreneur is one who, either by himself or in partnership with others, has gathered the necessary resources and has established or acquired an independent business venture, which is now owned and managed by him, either solely or jointly. He is a risk-taker, since he has invested funds in the enterprise. He has either sole or joint control of the entire venture. Despite the obvious similarity between the above description and that of a small business owner/manager, many persons in the latter category are not entrepreneurs. It may be tentatively postulated here that the most successful small firms are operated by individuals who have both entrepreneurial and managerial abilities and propensities. The majority of small businessmen lack either one or both. Small business needs, probably more than anything else, a large measure of entrepreneurial management.

The term entrepreneur as used throughout this thesis will relate to the possession of entrepreneurial capacity and inclination within individuals as distinct from small business owner/manager, recognising that the latter person may or may not have entrepreneurial characteristics as detailed in Chapter 2.

1.33 MANUFACTURING

Production is any activity that results in the satisfaction of people's wants through exchange. Production creates utility, which is the capacity to satisfy wants. The manufacturer transforms raw material and/or semi-finished goods into outputs which have utility for, and thus satisfy the needs of, either consumers or other producers. Manufacturing creates useful goods. Wholesaling and retailing are also productive activities since they add place-utility, by bringing goods nearer to the place of consumption. Firms providing services are also producers, since they perform activities which result in either place utility of tangible goods or marketable services in their own right.

Manufacturing attracts aspiring entrepreneurs who have attained technical skills in production, research and development or engineering. Particularly, the innovative individual who sees wide horizons for the exploitation of his creative capacity is drawn into manufacturing entrepreneurship. Regrettably the result is often a case of unbalanced managerial experience and expertise, with the owner unable and/or unwilling to give the necessary attention to the other functional aspects, in particular, marketing.

The manufacturing firms in this study tended to be somewhat larger than the firms in any of the other industrial groupings, averaging 16.4 employees. Of the 26 manufacturers included in the study sample, 15 (57.7%) specialized in one product, six (23.1%) identified two main products, four (15.4%) had three products and

one (3.8%) manufactured more than three main products. Seventeen (65.4%) of the 26 manufacturers reported at least 50% of their accounts receivable owing from two debtors. Thus a feature of small manufacturers in this study is their strong inclination to specialize intensively on a single major product, and to rely heavily on sales to several major customers. Analysis of business failures from the ranks of manufacturers, has indicated that the impact of both discontinued product lines and cancelled major accounts, feature significantly as perceived 'causes' of failure stated by bankrupts and insolvents.

1.34 WHOLESALING

The wholesaler, in various forms, is still a vital intermediary in channels of distribution for many varieties of goods. There are as many wholesalers in Australia as there are manufacturers, each constituting around 15-16% of all business establishments. There are many variations of the wholesaling process, but if a firm's predominant activity is that of purchasing from manufacturers and reselling to retailers, for the purpose of this study, that firm has been classified as a wholesaler. Most small wholesalers tend to deal in specialty lines rather than huge quantities of general goods.

1.35 RETAILING

Retailing is that segment of the total marketing activity where the products of the consumer goods industry (including durables) are sold to the ultimate consumers for their own personal use, or that of their families and dependents. As with wholesalers,

the significant contribution of retailers to the economic life of the community arises through their creation of time, place and possession utilities - they bring goods to places that are convenient for consumers to purchase, at the times they are required, and they provide the facilities by which consumers may secure possession of the goods of their choice.

Retail trade is an area where small business predominates. The marked expansion of large-scale retailing in recent years (with chain stores, supermarkets, branch departmental stores, and large discount stores) has brought with it increasing speculation about the future of small-scale, independent retailers. Despite what may seem to be an approaching era of big business, there are indications, both in Australia and overseas, of growing strength in small retailing. One example of this fight back is the introduction of voluntary chains, whereby groups of independent retailers co-operate, by establishing and operating their own warehousing and even production facilities, with the purpose of gaining the economic advantages once available only to the larger firms.

Included in the sample of small business firms in this study are a variety of small retail firms. They are 'small' as expressed in the definition used for this study.

1.36 SERVICE 'INDUSTRIES'

Service firms sell services rather than goods, although there is often some overlap. Owner/managers of service firms possess

saleable skills and/or facilities for rendering services. There is a wide diversity of service firms but they can be classified into business services (advertising, accounting, collection agencies, public relations, management consultants), personal services (hairdressers, dry cleaning, travel agencies, photographic studios), automobile and repair services (car and truck rental, vehicle lubrication and repair, shoe repairs, electrical and appliance repairs), entertainment and recreation and accommodation services.

Service firms have enjoyed a long period of rapid growth, and their future seems assured because most services are difficult, if not impossible, to mechanize or automate. This effectively discourages larger firms from entering this field. This difficulty also contributes to a rather low productivity per worker, and the increasing demand for services (assumed to be highly correlated with rising standards of living) results in more enterprises entering the services sector. Consequently, for the potential entrepreneur with the ability to market his personal skill, there is an attractive area of enterprise. The services field is characterized by a high degree of specialization. Firms concentrate on one particular service, or several closely related services. Associated with this feature are several others - the critical capacity to render prompt and efficient service; the need for a regular or permanent clientele; and the personalized character of customer/firm relationships.

1.4 SMALL BUSINESS IN THE AUSTRALIAN ECONOMY

There are two aspects of the importance of small business

enterprise - quantitative measures (indicating the numerical significance of small firms), and a more subjective view of their pervasive contributions to the wealth and progress of the economy and to the quality of life generally.

1.41 NUMERICAL SIGNIFICANCE

In Australia, as in most other countries, the vast majority of all business enterprises are 'small' firms, by whatever criteria are used in the determination of 'smallness'. It is difficult to prove this assertion, and to ascertain just how many business enterprises, of any size, operate, either within Australia as a whole, or in any of the individual states. It is equally difficult to locate accurate data on employment, sales volume or output for small business. The problem is due, in part, to the lack of a generally acceptable definition of small business. Other factors such as their exemption from the obligation of filing annual accounts, their multiplicity and dispersion, and the psychology of the independent entrepreneur (his individuality and distrust of authority and 'officialdom') have together made it difficult to gain reliable and useful information. Small business owners have tended to resist attempts to research them or bring them under public scrutiny.

An important development in the field of Australian statistics occurred with the introduction of a programme of 'fully integrated' censuses, as from the fiscal year 1968-69. Certain significant modifications to definitions were implemented, and for the first time it became possible to generate statistics for all States and

the Commonwealth without overlap, or many gaps in coverage. The major disadvantage still remaining with these data is that 'Selected Services' delete some types and significant numbers of service firms. Another unfortunate consequence is that the statistics for 1968-69 and all subsequent years are not directly comparable with those of 1967-68 and all previous years. The Bureau of Census and Statistics adopted the Australian Standard Industrial Classification (ASIC), for the purpose of developing integrated censuses, and, based on this classification of business establishments, the data shown in Tables 1.3 and 1.4 are available. In each of these two years, the ratio of business establishments to total population of Western Australia is a little more than 1:45, and for the whole nation, approximately 1:48. These ratios compare reasonably with those for the United States, where, in 1970, there were 5.17 million business enterprises and a population of 217,000,000 - about 1 firm for every 42 persons. For both countries, firms engaged in primary production, other than mining, were not included in the figures.

Efforts to produce comparable national figures by using data from the Commonwealth Taxation Department, proved frustrating, since, for the 1968-69 assessment year, approximately 152,000 partnerships and 90,000 companies (both public and private) submitted taxation returns. To these figures must be added an unknown number of sole proprietorships. The total of approximately 720,000 taxpayers who were subject to provisional taxation assessment in 1968-69, may be adjusted down to exclude primary production, producing a total of 470,000. Further adjustment is necessary to delete a certain number of taxpayers who derived income

TABLE 1.3 ECONOMIC CENSUSES: 1968-69 AND 1969-70 WESTERN AUSTRALIA

Particulars	Mining	Manu- facturing	Electric- ity and Gas	Retail	Selected Services	Wholesale	Total
No. Establishments 1968-69	166	2774	58	9979	2100	3154	18231
1969-70	165	2791	57	9176	1987	3132	17308
Percent. of Total 1968-69	.9	15.2	.3	54.8	11.5	17.3	100%
1969-70	1.0	16.1	.3	53.0	11.5	18.1	100%
Persons Employed* 1968-69	9343	63796	3711	54074	16364	31065	178353
1969-70	9035	64675	3889	52702	16247	32247	178345
Percent. of Total 1968-69	5.2	35.8	2.1	30.3	9.2	17.4	100%
1969-70	5.1	36.2	2.2	29.4	9.1	18.0	100%
Average No. Employed 1968-69	56.3	23.0	64.0	5.4	7.8	9.9	9.8
1969-70	55.1	23.2	68.2	5.7	8.2	10.3	10.3

*Includes Working Proprietors

Source: adapted from Western Australian Year Books, 1971 and 1973

TABLE 1.4 ECONOMIC CENSUSES: 1968-69 AND 1969-70 AUSTRALIA

Particulars	Mining	Manu- facturing	Electric- ity and Gas	Retail	Selected Services	Wholesale	Total
No. Establishments 1968-69	1716	38834	224	137922	27173	34231	240100
1969-70	1767	37021	222	129936	26255	34613	229814
Percent. of Total 1968-69	.7	16.2	.1	57.4	11.3	14.3	100%
1969-70	.8	16.1	.1	56.5	11.4	15.1	100%
Persons Employed* 1968-69	53295	1320167	71140	742748	222498	350640	2762488
1969-70	58661	1318612	69845	702599	220662	353129	2723508
Percent. of Total 1968-69	1.9	47.8	2.6	26.9	8.1	12.7	100%
1969-70	2.2	48.3	2.6	25.7	8.1	13.1	100%
Average No. Employed 1968-69	31.1	34.0	317.6	5.4	8.2	10.2	11.5
1969-70	33.2	35.6	314.6	5.4	8.4	10.4	11.9

*Includes Working Proprietors

Source: adapted from Western Australian Year Books, 1971 and 1973

(other than wages and salaries) from partnerships - an estimated deduction of 370,000.* The resulting figure of 100,000 is an estimate of the number of sole traders who earned assessable income, other than wages and salaries, in excess of \$300 during 1968-69. To this can be added a number of proprietors who either earned less than \$300 for the year, or who operated clandestine enterprises and therefore failed to submit any return of income. Officers from the Commonwealth Taxation Department offered estimates of the numbers of such persons, which produced a median number of 8% of the number who had submitted returns of income (other than those in primary production) - that is, 8% of 470,000, a total of nearly 40,000. This calculation has produced a figure of some 140,000 sole proprietorships, and a total estimation as follows:

Sole Proprietorships	140,000
Partnerships	152,000
Companies	<u>90,000</u>
	<u>382,000</u>

This total is substantially in excess of that published by the Bureau of Census and Statistics, shown in Table 1.4. It could be argued that the figures produced by the Bureau are low because a percentage of business operations are never known to the Bureau. With reasonable confidence, it can be stated that the total number of non-rural business ventures in Australia is between

* An analysis of 500 new partnership registrations (under the Western Australian Business Names Act) during three periods in 1970, 1971 and 1973 was undertaken. The 500 registrations listed 1293 individual partners. Applying this factor to the 152,000 partnerships listed above produced a figure of approximately 370,000 partners.

250,000 (Economics Census) and 380,000 (the above estimation) - probably around 350,000. For Western Australia (which has a little over 7.5% of all business firms in Australia - based on the Economic Censuses), this would suggest a range of 18,500 to 28,500 with approximately 25,000 as a reasonable estimate.

The next question to be resolved is - how many of these firms can be classified as small? Fragmentary data from official sources suggest that small firms predominate, and this conclusion has the support of Fargher (1971) and Harrison (1969), both of whom have studied the question of small firm numbers in Australia. The Bureau of Census and Statistics has presented the following information, relating to factories, for the year 1967-68:

TABLE 1.5 FACTORIES CLASSIFIED ACCORDING TO SIZE AND PERSONS EMPLOYED (AUSTRALIA)

No. of Employees*	Factories			Persons Employed*		
	No	% of Total	Cumulative	No	% of Total	Cumulative
Under 4	24855	39.5	39.5	46995	3.5	3.5
4 to 10	19795	31.4	70.9	122123	9.1	12.6
11 to 20	7964	12.7	83.6	116273	8.7	21.3
21 to 50	5868	9.3	92.9	184453	13.8	35.1
51 to 100	2279	3.6	96.5	159680	11.9	47.0
101 to 500	1910	3.0	99.5	383653	28.6	75.6
Over 500	283	0.5	100.0	326428	24.4	100.00
TOTAL	62954	100.0	-	1339605	100.0	-

* Average over the year; includes working proprietors.

These figures are pre-Integrated Census and are not comparable with those in Tables 1.3 and 1.4. Percentages rather than absolute numbers are significant in this Table.

Source: adapted from Western Australian Year Book, 1971, p.406

TABLE 1.6 FACTORIES CLASSIFIED ACCORDING TO SIZE AND PERSONS EMPLOYED (WESTERN AUSTRALIA)

No. of Employees*	Factories			Persons Employed*		
	No.	% of Total	Cumulative	No.	% of Total	Cumulative
Under 4	2558	47.3	47.3	4796	7.0	7.0
4 to 10	1608	29.8	77.1	9686	14.1	21.1
11 to 20	559	10.3	87.4	7999	11.6	32.7
21 to 50	440	8.2	95.6	13616	19.8	52.5
51 to 100	151	2.8	98.4	10711	15.6	68.1
101 to 500	82	1.5	99.9	15606	22.7	90.8
Over 500	6	.1	100.0	6376	9.2	100.0
TOTAL	5404	100.0	-	68790	100.0	-

* Average over the year; includes working proprietors.

These figures are pre-integrated Census and are not comparable with those in Tables 1.3 and 1.4. Percentages, rather than absolute numbers are significant in this Table.

Source: adapted from Western Australian Year Book, 1971, p.406

Supporting the above data are figures, reported in the Western Australian Department of Labour Annual Report (1971, p.29), which, in summary, state that 81.5% of the State's factories (as specifically defined for the Department's purposes) employed 10 or fewer persons in 1970; 89.7% employed 20 or fewer; 92.9% employed 30 or less and 98.4% employed 100 or fewer. Only 110 factories of a total of 6972 (i.e. 1.6%) employed more than 100 persons.

Facts relating to the size of types of business, other than factories, are harder to procure. The Bureau of Census and Statistics in Retail Establishments and Selected Service Establishments: Preliminary Bulletin (1971, p.7) stated that, for 1968-69, a total of 9,935 retail establishments employed

53,654 persons - a mean of 5.4 persons per establishment. In 2,115 selected service establishments a total of 16,104 employees was recorded - a mean of 7.6 per service establishment. During the same period, 3,142 wholesale establishments employed 30,918 persons - a mean of 9.8 per establishment (Wholesale Establishments: Preliminary Bulletin, 1971, p.7). In all three sets of figures, working proprietors are included, and figures were as at June 30, 1969. From the Western Australian Department of Labour Annual Report, 1971, pp.38-39 data for shops and warehouses registered in 1970 indicated a total of 13,874 establishments which engaged 74,745 persons - a mean 5.4 persons (including employers) per establishment.

The United States Department of Commerce (1968) has provided data showing the variation in the distribution of paid employment among various industrial categories, and such figures may reasonably be assumed to approximate the distribution in Australia.

TABLE 1.7 DISTRIBUTION OF FIRMS AND PAID EMPLOYMENT, BY SIZE OF FIRM

	All Firms	Manuf.	Retail	Wholesale	Services	
100%				500 or more	500 or more	100%
90%			500 or more	100 - 499		90%
80%	500 or more				100 - 499	80%
70%		500 or more	100 - 499	20 - 99		70%
60%			20 - 99		20 - 99	60%
50%	100 - 499					50%
40%		100 - 499				40%
30%	20 - 99		1 - 19	1 - 19	1 - 19	30%
20%		20 - 99				20%
10%	1 - 19	1 - 19				10%

Source: U.S. Department of Commerce, 1968, Series ES 3, No.2

From Japan, where comprehensive records are maintained, the following evidence of the distribution of business firms, according to the number of employees, is available:

TABLE 1.8 DISTRIBUTION OF ENTERPRISES ACCORDING TO NUMBER OF EMPLOYEES, 1954 (JAPAN)

No. of Employees	No. of Establishments	Percentage of Total No. of Establishments
Less than 4	2,634,046	90.2
5 - 29	584,633	17.7
30 - 99	54,101	1.7
100 - 199	6,654	0.2
Total Under 200	3,279,434	99.8
200 - 299	2,069	0.1
Over 300	3,107	0.1
	<u>3,284,610</u>	<u>100.0</u>

Source: Chusho K.C., Shinko B., and Chosa K., 1956, p.1
(adapted from Yamataka, 1971, pp. 57, 97)

Because of the absence of comparable, complete, reliable and relevant Australian data, and the uncertainty inherent in assumptions used in extrapolation from overseas figures, the author conducted a postal survey of 2000 randomly selected firms in Western Australia. The purpose of this survey was to produce representative data pertaining to industrial groupings, mode of ownership, size (based on number of employees), sales income, age and other quantitative characteristics of a random selection of business enterprises.

The primary tables are presented here. Appendix D provides details of the survey method, and a series of cross-tabulations.

TABLE 1.9 INDUSTRIAL GROUPINGS

<i>Grouping</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Mining</i>	12	.6%
<i>Manufacturing</i>	281	14.1
<i>Electricity/Gas</i>	8	.4
<i>Retailing</i>	792	39.6
<i>Wholesaling</i>	296	14.8
<i>Services</i>	611	30.5
	2000	100.0%

TABLE 1.10 MODE OF OWNERSHIP (LEGAL FORM)

<i>Grouping</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Sole Trader</i>	392	19.6%
<i>Partnership</i>	862	43.1
<i>Private Company</i>	586	29.3
<i>Public Company</i>	160	8.0
	2000	100.0%

TABLE 1.11 SIZE OF PARTNERSHIPS

<i>Size Category</i>	<i>Frequency</i>	<i>Percentage (of 2000)</i>
<i>2 partners</i>	330	16.5%
<i>3 partners</i>	212	10.6
<i>4 partners</i>	146	7.3
<i>5 partners</i>	90	4.5
<i>more than 5 partners</i>	84	4.2
	862	43.1%

TABLE 1.12 NUMBER OF EQUIVALENT FULL-TIME PERSONS EMPLOYED*+

Persons Employed	Frequency	Percentage	Cumulative %
Less than 4	872	43.6%	43.6%
4 - 10	652	32.6	76.2
11 - 20	280	14.0	90.2
21 - 50	104	5.2	95.4
51 - 100	46	2.3	97.7
101 - 500	30	1.5	99.2
Over 500	16	.8	100.0%
	2000	100.0%	-

* For at least 2 of the past 3 months

+ Including proprietors, partners, directors

TABLE 1.13 SALES INCOME (\$) FOR MOST RECENT BUSINESS YEAR

Income Category	Frequency	Percentage	Cumulative %
Less than \$5000	168	8.4%	8.4%
\$5000 - \$10000	114	5.7	14.1
\$10001 - \$20000	344	17.2	31.3
\$20001 - \$50000	788	39.4	70.7
\$50001 - \$100000	328	16.4	87.1
\$100001 - \$250000	206	10.3	97.4
Over \$250000	52	2.6	100.0%
	2000	100.0%	-

TABLE 1.14 FIRMS CLASSIFIABLE AS 'FAMILY FIRMS'

Percentage with wife and/or children involved in a working capacity	27%
Second generation firms (chief executive is son, or grandson etc. of founder)	8.5%

TABLE 1.15 AGE OF SMALL FIRMS*

Age Category	Frequency	Percentage	Cumulative %
Less than 1 year	570	29.9%	29.9%
1 - 2 years	412	21.6	51.5
2 - 3 years	300	15.7	67.2
3 - 4 years	239	12.5	79.7
4 - 5 years	204	10.7	90.4
5 - 10 years	101	5.3	95.7
10 - 20 years	59	3.1	98.8
Over 20 years	23	1.2	100.0%
	1908	100.0%	-

* Defined as employing 50 or fewer full-time equipment persons

Source Tables 1.9 to 1.15 inclusive: author's postal survey
(see Appendix D)

There is overwhelming evidence that small firms are numerically predominant in the economy of Western Australia, as in the other Australian states, and in other countries. Despite deficiencies in published data and the inherent uncertainty of extrapolated and comparative figures, the evidence is consistent and convincing. Of an estimated national total of some 350,000 non-rural business ventures (25,000 for Western Australia):

- (a) nearly 98% are small by the Wiltshire Committee yardstick of 100 or less employees,
- (b) retailing is the largest sector (40%), followed by services (30%), wholesaling (15%) and manufacturing (14%),
- (c) partnerships are the most popular mode of ownership,
- (d) small firms (again using 100 employees as the line of demarcation) are most predominant in services (99.7% of all services firms), followed by retailing (99.3% of all retailers), wholesaling (97.0% of all wholesalers) and manufacturing (96.9% of all manufacturers), and
- (e) small firms employ approximately 40% of the total civilian non-rural workforce.

To assess the significance of small firms in any economy merely in terms of a 'body-count', results in a task only half completed.

1.42 ROLE IN, AND CONTRIBUTIONS TO, SOCIETY

There are varied and vital contributions, made by the small business sector to the economic and social fabric of society, which cannot be expressed in, or appreciated solely from statistical data. The Bolton Committee (1971, pp.25-26) commented that

it is indeed difficult to express fully in words what we believe to be a major characteristic of the small firm sector - its contribution in myriad ways to the quality of life ... in every field wherever attempts are being made to improve the way of life there will be a range of small scale businesses associated with it. Because these diffuse efforts so permeate our way of life it is impossible to deal with them *in extenso*.

Small business provides a ready, albeit often risky, means through which many thousands of 'entrepreneurial types' are able to derive satisfaction from their work, the exercise of their creative urges and the attainment of a measure of independence. Small firms provide a productive outlet for enterprising and independent-minded individuals - people who may otherwise be forced to submit to many years of frustration and psychological conflict in uncreative, subordinate and routinized work roles. Golby and Johns (1971, p.5) reported their opinion that the underlying motivation of small firm entrepreneurs is "the need to attain and preserve independence", and that

this need for 'independence' sums up a wide range of highly personal gratifications provided by working for oneself and not for anybody else. It embraces many important satisfactions which running a small business provided - the personal supervision and control of staff, direct contact with customers, the opportunity to develop one's own ideas, a strong feeling of personal challenge and an almost egotistical sense of personal achievement and pride - psychological satisfactions which appeared to be much more powerful motivators than money or the possibility of large financial gains.

So strong is this desire for independence that it frequently over-rides such, so-called, rational economic considerations as profit maximization, and sustained optimum growth. Research reports, associated with the Bolton Report and inquiry, related evidence that mean salaries of proprietors, active partners and directors of small firms are less than the average earnings of other comparable occupational groups, and less than managerial salaries in larger firms.

This study did not investigate comparative earnings but did question attitudes toward growth. Findings agree substantially with those of the Bolton Committee, in that there exists, among entrepreneurs, a realization that growth means employing supervisory staff, or taking in a partner, and both courses result in loss of personal control and independence. This concern, about the loss of control through growth, has much justification, since the author's analysis of causes of business failure in Australia shows that a significant proportion of failures occur in periods of growth, change and proprietorial adjustment

Not stated in the Bolton Report (1971), but explicitly evident

among the sample used in the author's study, is a degree of anxiety about the consequences of growth. While many small businessmen welcome growth, face the inherent problems and succeed, many others fear the uncertainties accompanying change and growth. These reactions and tendencies make small firm behavior different from that traditionally accepted by economists and more typical of larger business. In this fact, there lies another justification for closer study of the smaller firm and its driving force, the entrepreneur.

Small firms are most predominant in those industries in which the optimum size of the business unit is small. There are many sectors where large scale economies are less appropriate and advantageous, and small firms operate profitably by providing the community with a wide range of product choice and high standards of personal service. The Bolton Committee (1971, p.26) referred to rationalization in the range of available products *via* the economic advantages of mass-production, and the consequential reduction in consumer choice. Thus, many small firms exist to supply, or service very limited and specialized markets. They gravitate, particularly, towards

consumer goods trades with low costs and high labour content, products with strong elements of fashion and specialization like furniture and clothing (Boswell, 1973, p.17),

the services, retailing and some aspects of wholesaling (again labour intensive in nature), and many new areas such as "plastics, scientific instruments and electronics" (Boswell, 1973, p.17) - the modern technological 'spin-off' phenomenon.

This role, as the provider of a vast array of specialist products, skills and services, does not apply solely to the satisfaction of the needs of luxury markets and minority groups. Small firms also invariably supply specialist needs for large scale industry at costs lower than the latter can achieve. The Report of the Committee on Small Business (The Wiltshire Committee, 1971, p.17) cited, as an example of this interdependence of small and large scale industry, the case of General Motors-Holden Pty Ltd, which is reliant on some 4,000 suppliers (most of whom are small firms), with whom it spends \$230 million annually.

Smaller firms generally have close contact with their customers, and, for this reason, often tend to be more market conscious than many larger firms. Given this awareness of market demand, and the fact that large numbers of small firms are created and operated by individuals who have strong creative urges and capabilities, it is a natural consequence that the small firm sector contributes substantially as a source of invention and innovation. There is significant evidence (Jewkes, Sawers and Stillerman, 1958; Cox, 1971; Freeman, 1971) that private individuals and small firms make a disproportionately large contribution in the area of invention, as distinct from innovation. Schon (1967, p.43) differentiated between these two activities when he wrote that

'invention' is the process of bringing new technology into being, or new technology created in processes, while 'innovation' means the process of bringing invention to use.

While it seems plausible that small firm flexibility, and the creative potential that went into its establishment, gives it

decided advantages in the matter of invention, it is less likely that it has any superiority over the larger firm in innovation. Much industrial innovation requires substantial capital investment and much specialized equipment and labour, and the smaller firms have distinct handicaps here. The two normally sequential activities of invention and innovation bring greater efficiency through improved design, production processes and marketing technology, and also contribute to the greater supply of new varieties of goods and services. This inventive/innovative propensity seems to be a key link between high levels of achievement motivation and entrepreneurial activity on one hand, and rapid and sustained economic growth on the other.

The relative performance of small and large firms in innovative (as distinct from inventive) activity is the subject of persistent controversy. Very large firms, it is frequently argued, are too bureaucratic and monopolistic to be able or willing to promote innovation, and, instead, become heavily committed to existing products and processes. While this is an extreme view, smaller firms do not generally have these types of constraints, but they do however, often lack the one basic requirement for substantial and continued innovative activity - financial resources. Despite this assertion, there can be little doubt that small firms with innovative capacity in the technological field, will frequently be sufficiently enterprising to procure the necessary finance and other resources. Attempts to evaluate the comparative innovative performance of small and large firms have not been very productive (Mansfield, 1968; Roberts and Wainer, 1968). The matter is confused by the fact

that smaller and larger firms become involved in different types of innovation, that there is considerable exchange of personnel between firms, and there are spin-offs, take-overs, sell-outs, mergers and licensing contracts, all of which make it difficult to identify how or where an invention or discovery moves into the innovative phase, as defined by Schon (1967), above. The Bolton Committee (1971, p.54) resolved its uncertainty on this point by indicating that "the activities of small and large firms in the innovative process appear to be complementary".

The Bolton Committee produced some comparisons between smaller and larger firms on various indices of efficiency, including innovation. In firms with less than 200 employees, the average employee was reported to have had 31% less power equipment at his disposal than did employees in larger firms (Bolton Committee, 1971, pp.42-43). Nevertheless, output per employee in smaller manufacturing firms was recorded at some 23% below that in larger firms (*ibid.*, pp.40-41) indicating that capital intensity and output per employee both increase with the size of the enterprise, the latter increasing less than proportionately. When net output is compared with fixed assets employed, or the rate of return on capital is used as the efficiency criterion, smaller firms are slightly more efficient than large firms. The Bolton Committee admitted many weaknesses in the comparisons, and concluded "that our analysis so far provides no evidence for assuming that small firms are, in general, any less efficient than large, or *vice versa*" (*ibid.*, p.47).

The existence of great numbers of small firms, and the concomitant

wide range of products, trades and services, provides the economy with a strong competitive spirit. This competitive vitality is an essential ingredient in the efficient functioning of the free-enterprise economy. It has been shown that entrepreneurial propensity (measured by achievement motivation levels) is persistently associated with economic growth (McClelland, 1961). It is suggested that widespread and high levels of both achievement motivation and entrepreneurial inclination, will be associated with the creation of many new business ventures. Thus, growth in small business numbers may be a reasonably reliable index of economic prosperity. There exists little valid empirical evidence of any such correlation, and the question deserves research attention. Despite this lack of such evidence, it is a widely held view that the development of a climate, conducive to entrepreneurial activity, is both necessary and desirable to check tendencies toward concentrations of economic power. The "seed-bed" function of small business is seen by the Bolton Committee (1971, p.84) as a vital one, both for keeping open the channels of entry, and for giving birth to firms which may grow and offer challenge and stimulation to existing business leaders.

To many a 'man-in-the street', one inherent weakness in the advent of large scale retail complexes in suburbia, is the near absence of personalized service. Small firms provide a much needed role in preserving the personal nature of business/customer relationships. Such a relationship is much sought after in the field of personal services, and in certain lines of retailing.

Small business provides a means of gainful employment and advancement for many persons who, for lack of qualifications, would have little opportunity to find acceptance in the professions, government services or larger organisations. Similarly, older persons, those with physical and minor mental handicaps, and minority groups, tend to find more opportunity for meaningful employment in smaller firms.

The small business sector, particularly in outer suburban districts, smaller towns and rural areas generally, contributes significantly to societal stability. The small businessman tends to have a settling influence in the community, providing employment for locals, service in local government, social and other organisations, and can be a point of reference as a loyal community member. He is a man with a stake in the prosperity and development of the area upon which he is utterly dependent. By contrast, the salaried executive is more mobile and less closely attached to the interests of the locality. He is often regarded as a transient.

The role of the small business and its owner in the whole life of the community cannot be expressed merely in statistics, since their influence affects the whole texture of society, social as well as economic. It is as much the man as his firm who contributes to society, and this offers a further reason for the study of entrepreneurs.

1.5 BUSINESS FAILURE - SYMPTOMS AND CAUSES

One purpose of this study is to help determine the 'real' causes of the high failure rate among small business ventures.

Statements on this problem are not hard to find in the business literature generally, but they tend to be very superficial, and suggest little that can be done to improve entrepreneurial performance in the long run.

Knowledge of, and experience in, the operation of small business, and some published data on the causes of business failure, would indicate that the prime determinants of successful enterprise are the possession of certain personal characteristics, and the leadership/managerial skills of the entrepreneur. While it is recognized that various 'mishaps' or unforeseen and unfortunate events do directly, and indirectly, lead to business failure, extensive survey data from Dun and Bradstreet Inc. (1970) and other researchers, consistently point to managerial inexperience and incompetence as the basic problem in at least 90% of all business failures.

Cover (1933, p.89) reported that over 50% of 397 retail bankruptcies in the Chicago area were caused primarily because of "discernible errors in management". The Temporary National Economic Committee (Monograph No.17), in the United States, concluded that

management difficulties to which failures are attributed are as numerous as the problems of business. In individual proprietorships business difficulties are further complicated by the incursion of personal attributes and domestic and social relations (1941, p.81).

Dun and Bradstreet (1970, pp.11-12) have extensively analyzed business failure and its causes, their findings being shown in Table 1.16.

TABLE 1.16 CAUSES OF BUSINESS FAILURES IN UNITED STATES - 1969

Neglect		3.0%
Fraud		1.1
Inexperience and Incompetence		
Lack of line experience (i.e. lack of technical expertise)	8.5	
Lack of managerial experience	17.4	
Unbalanced, inappropriate experience	21.2	
Incompetence	44.9	92.0
Disaster and Reason Unknown		96.1
		3.9
		100.0%

Source: Dun and Bradstreet Inc., 1970.

Interpretation of the Dun and Bradstreet data, shows, that in 1969, in the United States, 96.1% of all business failures were directly related to managerial inadequacy. Such data are not readily available in Australia, but information gained from interviews with 75 owners of failed small firms (included in the total sample for the study) indicated a similar pattern of likely causes of failure. Table 1.17 records the findings from the author's interviewing:

TABLE 1.17 CAUSES OF BUSINESS FAILURE - AUSTRALIA 1972-74

Neglect		2%
Fraud		1
Management inadequacy		
Lack of financial controls	43	
Interpersonal problems	21	
Incorrect decisions due to inexperience	27	91
Unforeseen circumstances ("disaster")		94
		6
		100%

Although these figures should be interpreted with some caution, they are comparable with those from Dun and Bradstreet. Many ex-owners admitted to more than one aspect of inadequacy, but were encouraged to state their perceived primary problem. These data show emphatically that the vast majority of business failures are associated in some way with the competence of the owner/manager(s). In a small firm there is no counter-balancing influence from other members of an executive team - the entrepreneur is either the only, or the dominant force in the firm, and upon his decisions, sound or faulty, rest the fortunes and fate of the venture.

From these assertions, the following questions can be posed: What does managerial competence mean? What does an incompetent entrepreneur do that leads to failure of his firm? What factors contribute to, or detract from, managerial competence in the context of small business ownership and management?

In few other roles in the field of economic endeavour is the calibre of one person (or several) so vitally important for the viability and success of organised venture, as it is in the case of a small firm. The quality and ability of the owner/manager is the predominant factor in the success or otherwise of the small business. The destructive influence of the incompetent and/or inexperienced owner of a small business has a far greater effect on the venture than could any single executive in a large organisation. Studies of small business operation, in Australia, as in many other countries, have tended to scrutinize closely financial performance at the expense of attention to the role of

the entrepreneur. Financial data and analysis invariably provide evidence of more intrinsic phenomena. They are objective and measurable symptoms or manifestations of entrepreneurial strengths and weaknesses, experience and inexperience, skill and incompetence - they are intervening rather than "causal" variables in the study of business performance.

Support for the proposition that managerial aptitude, experience and attitude are key factors, comes from widespread and convincing evidence that the most vulnerable period, for any business venture, is during its early stages. Matters such as developing market outlets and reliable sources of supply, negotiation with bankers, mortgagees and potential partners or shareholders, the establishment of an efficient and loyal work team and the maintenance of a continual and adequate flow of current funds through the business, are all factors crucial to the building of sound foundations for the venture. The new, inexperienced and possibly incompetent entrepreneur will have poor judgment and timing, he will lack particular and necessary skills and not be able to perform efficiently essential managerial functions, he will not have a 'feel' for the appropriate course of action, he will be faced with alternate courses and not know how to assess the consequences of each, and, for all these reasons, he will make faulty decisions, and often fail to make decisions at all, or at the right time. In the early life of a new venture, when the environment is potentially more hostile than at later stages, this is the period when entrepreneurial ineptitude is likely to be most potent. It is not surprising, therefore, that most business failures involve small firms and those which are still struggling

TABLE 1.18 COMPARATIVE BUSINESS FAILURE RECORDS OF THE AUSTRALIAN EASTERN STATES AND AMERICAN FAILURE
RATES - BY AGE IN YEARS 1964

Age in Years	Manufacturers		Wholesalers		Retailers		Transport and Construction		Services		All Concerns	
	Aust.	U.S.	Aust.	U.S.	Aust.	U.S.	Aust.	U.S.	Aust.	U.S.	Aust.	U.S.
1	1.5%	2.3%	1.5%	1.6%	10.7%	3.5%	5.9%	1.3%	7.9%	2.8%	7.1%	2.6%
2	7.5	13.6	7.5	10.3	18.9	20.0	9.8	11.0	12.3	14.3	13.0	15.8
3	10.5	14.4	11.9	13.1	15.7	18.6	16.2	14.5	14.1	17.2	14.4	16.5
Total 3 or less	19.5	30.3	20.9	25.0	45.3	42.1	31.9	26.8	34.3	34.3	34.5	34.9
4	5.3	12.1	4.5	13.4	15.3	12.1	16.6	11.3	8.4	13.0	11.9	12.2
5	16.4	8.4	4.5	8.5	11.3	8.5	15.2	10.9	11.9	8.9	12.5	8.9
Total 5 or less	41.1	50.8	29.9	46.9	71.9	62.7	63.7	49.0	54.6	56.2	58.8	56.0
6	9.7	7.4	8.9	6.5	8.9	6.4	11.7	7.5	10.1	8.4	9.9	7.0
7	6.0	4.1	6.0	4.8	4.3	4.1	2.9	6.1	12.9	4.8	6.4	4.5
8	7.5	3.9	8.9	4.4	3.1	3.6	4.4	4.8	4.4	4.7	4.7	4.0
9	4.4	3.2	6.0	4.1	1.2	2.4	3.5	3.9	2.6	3.3	2.8	3.1
10	5.2	3.1	10.5	3.1	.9	2.3	1.5	3.8	1.3	3.0	2.4	2.9
Total 6-10 years	32.8	21.7	40.3	22.9	18.4	18.8	24.0	26.1	31.3	24.2	26.2	21.5
Over 10 years	26.1	27.5	29.8	30.2	9.7	18.5	12.3	24.9	14.1	19.6	15.0	22.5
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
No. of Failures	134	2254	67	1392	327	6239	204	2388	277	1226	959	13,501

Source: Dun and Bradstreet Inc., 1966.

through the formative period.

Some evidence of failure patterns, both in the United States and in several of the eastern States of Australia has been produced by Dun and Bradstreet Inc. (see Table 1.18). The Australian failure rate is no lower than that in the United States. Tables 1.19 to 1.21 (inclusive) indicate age and size of failed firms, from the author's survey of business failures in Australia, in two two-year periods. Appendix E provides procedural and other details of the survey.

TABLE 1.19 AGE OF BUSINESS FAILURES

Age	Frequency	Percentage	Cumulative %
<i>Less than 1 year</i>	238	27.6%	27.6%
<i>1 - 2 years</i>	119	13.8	41.4
<i>2 - 3 years</i>	98	11.2	52.6
<i>3 - 4 years</i>	87	10.1	62.7
<i>4 - 5 years</i>	55	6.4	69.1
<i>5 - 10 years</i>	80	9.3	78.4
<i>10 - 20 years</i>	75	8.7	87.1
<i>Over 20 years old</i>	111	12.9	100.0%
	863	100.0%	-

Source: Author's Survey, Appendix E

These data on age of failures are alarming, since, on the basis of this survey, over two thirds of all firms fail to persist for 5 years. That most of these failures involve small firms, is attested by the following tables:

TABLE 1.20 SIZE (BY NUMBERS EMPLOYED) OF FAILED FIRMS

No. of Employees	Frequency	Percentage	Cumulative %
Less than 4	356	41.2%	41.2%
4 - 10	238	27.6	68.8
11 - 20	146	16.9	85.7
21 - 50	65	7.6	93.3
51 - 100	47	5.4	98.7
101 - 500	9	1.1	99.8
Over 500	2	.2	100.0%
	863	100.0%	-

Source: Author's Survey, Appendix E

TABLE 1.21 SIZE (BY LIABILITIES) OF FAILED FIRMS

Liabilities (\$)	Frequency	Percentage	Cumulative %
Under \$5000	40	4.6%	4.6%
\$5000 - \$25000	283	32.8	37.4
\$25001 - \$100000	355	41.2	78.6
\$100001-\$1,000,000	170	19.7	98.3
Over \$1,000,000	15	1.7	100.0%
	863	100.0%	-

Source: Author's Survey, Appendix E

Substantial agreement with the author's data and conclusion, that the earlier years claim most failures, has come from various sources. Mayer and Goldstein (1961, pp.56-57) reported the survival rate of firms in their sample as follows:

TABLE 1.22 LENGTH OF SURVIVAL (OF FAILURES)

No. of Months Survived	Failures	Percentage	Cumulative %
Under 2 months	4	4.9%	4.9%
2 to 3 months	4	4.9	9.8
4 to 5 months	5	6.2	16.0
6 to 7 months	6	7.4	23.4
8 to 9 months	3	3.7	27.1
10 to 11 months	1	1.2	28.3
12 to 13 months	4	4.9	33.2
14 to 15 months	-	-	33.2
16 to 17 months	1	1.2	34.4
18 to 19 months	3	3.7	38.1
20 to 21 months	1	1.2	39.3
22 to 23 months	-	-	39.3
2 years	-	-	39.3
Non-financial closures	32	39.3	39.3
	8	10.0	49.3
Survivors	40	49.3	49.3
	41	50.7	100.0%
	81	100.0	-

Source: Adapted from Mayer and Goldstein, 1961, pp.56-57.

Details of closure rates (defined as failures) from three independent studies in the United States, were reported by the Temporary National Economic Committee (Monograph No.17, 1941, p.8). The studies involved retail closures in Poughkeepsie, New York State (Hutchinson, Newcomer and Newcomer, 1938, pp.497-514), Colorado (Hallas, 1936, p.9) and Illinois (Converse, 1934, p.17). Table 1.23 summarizes their combined findings.

TABLE 1.23 LIFE SPAN OF RETAIL GROUPS - POUGHKEEPSIE,
COLORADO, ILLINOIS

Years of Life	Poughkeepsie (10000 firms)	Colorado (539 firms)	Illinois (61 firms)
1	29.6%	40.8%	27.9%
2	14.2	14.3	14.7
3	9.4	6.7	13.1
4	6.2	5.9	3.3
5	4.9	4.3	-
	64.3%	72.0%	59.0%

Sources: see paragraph above

To each of the three questions posed earlier in this section, (page 67) brief and tentative answers are proffered.

Managerial competence implies the ability to do well whatever is required of a small business entrepreneur in the operation of his venture. This must be analyzed in, and related to, the situation within which entrepreneurial behavior takes place. All factors which feasibly influence the effective performance of the entrepreneurial role must be incorporated into any study of the latter, and the primary objective of this study is to identify factors which are valid and reliable predictors of entrepreneurial success. In the ultimate, the criterion of competency is the survival of the firm, and this depends greatly on the ability and willingness of the entrepreneur to make the appropriate decision and take the appropriate action at the appropriate time. Symptoms of managerial/entrepreneurial incompetence are numerous, and should not be confused with possible causes.

The inexperienced and/or incompetent entrepreneur will demonstrate his shortcomings in various ways, some of which are:

- inadequate and inaccurate financial records
- lack of product and/or market development
- inadequate market analysis
- lack of financial planning (short and long term)
- deteriorating working capital and quick asset ratios
- premature expansion with resulting liquidity problems
- poor location
- inadequate promotion and advertising
- poor judgment about competition (affecting pricing and marketing policies)
- failure to seek appropriate expert advice
- excessive drawings for private use
- failure to develop reserves for contingencies
- over-extension of credit (causing liquidity problems)
- financing expansion at interest rates higher than can be earned by the funds borrowed
- faulty purchasing and stock turnover problems
- inefficient use of time
- failure to insure against possible risks
- being unable to assess a risk and act appropriately, and being too willing to act without risk assessment
- inability to motivate employees
- failure to see trends in economic, social and political concerns and to be flexible enough to be able to benefit

Finally, this study is directed toward the identification and analysis of those factors which are proposed as pertinent to the understanding and prediction of entrepreneurial effectiveness, in the small business situation. Each of the suggested predictor variables will be discussed in Chapter 2, and subsequently brought together, to construct an analytical framework, as a guide to the empirical phase of this study.

CHAPTER 2 REVIEW OF THE LITERATURE : ANALYSIS OF THE STUDY VARIABLES

What sort of person is the independent entrepreneur who strikes out alone to create a new business enterprise where none existed previously? Much more has been written about the characteristics of the salaried executive in the larger organisation and in government employment - the person who seeks work in established structures - than has been written about the organisation creators. Such questions as 'Are these two types of persons basically different?' and 'If so, how does this difference come to be?' have been raised by very few researchers. It is generally agreed that salaried executives in big business and in government departments are an identifiable elite in our complex industrially- and commercially-based society. However,

there is a little understood but vital entrepreneurial elite - enterprising men who for various reasons refuse to stay put in established organisations but instead move out on their own to create new enterprises. (Collins, Moore and Unwalla, 1964a, pp.3-4).

This chapter examines the available research literature relating to the nature of entrepreneurship, its psycho-social origins, its role in economics and the wider social *milieu*, the essentials of entrepreneurial behavior and the distinction between entrepreneurs and salaried executives. Together with the analysis of other relevant variables in later sections of this chapter, this survey of research material on entrepreneurship will provide a foundation for the construction of a conceptual model, and the formulation of the hypotheses to be tested.

2.1 THE ENTREPRENEUR - TRADITIONAL AND POPULAR IMAGERY

Notions of the term 'entrepreneur' vary widely in the literature. In many popular publications the word denotes someone daring, creative, aggressive and willing to take many risks. It frequently connotes the cultural hero: the rags to riches theme or dream. It may also have implications of sharp dealings and dubious ethics.

Klatt (1971, p.1) has stated that

while much has been written about the entrepreneur, for the most part it is based on popular conjecture or stereotyped ideas about entrepreneurship. Although the entrepreneurs represent a powerful force in the continued economic growth of this country, their image is poor and their development receives little attention from government, educators, and their big business customers.

Bostrom labelled the business entrepreneur as the "ubiquitous pariah" (1961, pp.4-7), and stressed the widespread tendency of legislators, educators, unions, large business executives and the public at large to be only vaguely aware of "this vast innovating sector of our economy" (*ibid.*) despite the fact that all depend upon small business for the satisfaction of a great proportion of their needs.

Kaplan considered the small enterprise as a traditional symbol of independence and, "for a large part of the public, the symbol of a society in which the hired man can look forward to becoming his own boss" (1948, pp.3-4). Mayer (1953, p.160) has agreed

that although

should be this
admission omitted
to be sure
 business ownership has never been the only kind of opportunity in ... [American] society ... [it] lies closer to the full traditional meaning of opportunity than does simply 'making money' by working for others, regardless in what form.

Various studies of the occupational antecedents of small businessmen (Anderson and Davidson, 1937; Centers, 1948; Mills, 1951; Lipset and Bendix, 1954) have indicated that vast numbers of them have entered business ownership out of the working class ranks. On this point, Mayer (1953, p.179) has commented:

Thus, insofar as establishing a business of one's own implies social and economic mobility in many cases important aspects of the traditional concept of opportunity are still grounded in reality. It seems probable that this explains to a large extent the remarkable persistence of the American dream of business ownership.

Mayer has suggested that this opportunity maybe somewhat illusory since "in the overwhelming number of cases business ownership means little more economically than an alternative mode of making a living" (*ibid.*) Mayer has investigated the extent to which traditional faith in business opportunity still represents reality. He has concluded that there has been "considerable deterioration of the position of the small business owner" (*ibid.*), that small business owners no longer represent social substance, that small firms "are merely one stratum among others, sandwiched in between the upper class of corporate big business and the large mass of the wage-earning population" (*ibid.*) and that

In fact
 concerted efforts are constantly made by organized business groups to perpetuate the outdated concepts of business opportunity. A vast propaganda apparatus is employed to preserve the image of small business as the cornerstone of democracy, as the very

embodiment of the American way of life. The traditional concept of the rugged individual business enterpriser is promulgated and used by special interest groups as a front to conceal the fact that there exist two entirely different classes of enterprise in contemporary society. (*ibid.*, p.180)

Collins, Moore and Unwalla (1964a, p.4) have described the independent entrepreneur according to

the popular conception and ... in the historical literature ... [as] a risk taker - a man who braves uncertainty, strikes out on his own, and, through native wit, devotion to duty and singleness of purpose, somehow creates business and industrial activity where none existed before,

but were aware of the term's ability to evoke conflicting images when they continued with the comment that

in a sharply contradictory tradition, the word entrepreneur engenders negative emotions. It has an accompanying connotation of manipulation, greed and avarice, and grasping acquisitiveness.

.....
For most ... the entrepreneur, on balance, probably emerges as essentially heroic, and in the long run more constructive than destructive. Like him or not, he is fascinating. His values and activities have become integral to the character of [the country] and intimately related to its ideas of personal freedom, success and - above all - individualism. He represents the rags to riches theme in its purest form. He rises on his own by solid achievement, not by social climbing. He gets there by what he knows, not who he knows. His resources are not inside, not outside. The story or, if you wish, the myth of the entrepreneur is a drama in which the protagonist challenges the established order and forges ahead toward the glowing light called success using only native wit, skill, and hard work - with perhaps a bit of luck and Calvinistic fate thrown in for good measure. He is successful because he sticks to the simple and obvious ... virtues. He builds a better mouse trap or provides a better service, and he does these things in the best way he knows. He is resolute, disciplined, and utterly devoted. (Collins, Moore and Unwalla, 1964b, p.19).

Clearly the only valid conclusion one can draw from such statements as the foregoing, is that there is no unanimity about what role the entrepreneur plays in society. The popular views tend to be polar and the real entrepreneur is someone less extreme than either of the two traditional conceptions. The author's considered but untested opinion is that the man in the street, and even many in the ranks of the professions, do not possess very realistic notions about the individual who creates his own enterprise. Such ignorance, in part, justifies this study,

2.2 THE ENTREPRENEURIAL NATURE AND ROLE - EARLY STUDIES

No matter what specific definition one accepts, entrepreneurship refers to an identifiable pattern of behavior. The question which then arises is, can we say anything valid and empirically testable about the personality of people whose behavior follows this pattern? According to some of the more notable early researchers in the area of entrepreneurial behavior (Schumpeter 1934, 1947, 1949; Cole 1942, 1946, 1954; Jenks 1949, 1950) it is fruitless to assume a comprehensive set of personality traits. Their views indicate that personality cannot be thought of as something innate and fixed, determining uniquely what people will or will not do. Rather, it is something that grows and changes as the individual interacts with his environment, his personality and the situations of which he finds himself part.

Specifically, Jenks suggests, personality should be thought of as an organisation of the resources of the individual with respect to the situations in which he tries to act. As far as entrepreneurial research is concerned, this means that it is not necessary to know everything about an individual

in order to understand why and how he acts as an entrepreneur. All that is necessary is to understand those aspects of his personality that are relevant to the requirements of the entrepreneurial role.

The work of men like Schumpeter, Cole, Jenks, Harbison and Myers has been motivated by the desire to analyse economic history in terms of entrepreneurship, as the integrating focus for all economic activity. Cole exemplified this approach when he wrote:

The central position of entrepreneurship in other economic relations is suggested by consideration of the fact that entrepreneurial decisions ... constitute the chief element in business cycles. (Cole, 1946, p.7)

and:

In short, entrepreneurship cannot, it seems, be regarded as other than a potent change-producing force in a free or relatively free economy. To study the 'entrepreneur' is to study the central figure in modern economic history, and, to my way of thinking, the central figure in economics. (*ibid.*, p.8)

Thus, students of economic development, for the first time, began to see the entrepreneur as something more than the reacting role participant in economics and business. The nature of the actor, his role as an activator, catalyst and innovator, and his rightful place in history is steadily being understood. That there was still much confusion over the entrepreneurial role, was realised by Jenks (1950, p.91):

What social scientists have been saying about the businessman ranges from the tendency of some economic theorists to treat him as though he were a rational automaton maximizing profits, to the disposition of some ... historians to be aware only of a few businessmen, whom they regard as robber barons. Sociologists have pretty generally ignored economic agents except in the context of status systems.

The problem of analytical strategy has concerned Jenks in particular, and he posed the question (1950, p.100) "How are we then to approach the study of what is common in the probable behavior of entrepreneurs ... as distinct from that of other people?" He continued with the viewpoint that there are two seemingly contradictory assumptions about personality: that men are all alike (or vary in constant ratios and change at a constant rate) or that each man is unique. Thus it can follow, that there will always be a ready supply of entrepreneurial propensities when the situation is ripe (from the former assumption), or that the appearance of entrepreneurs is a matter of chance (from the latter assumption). Jenks has discounted both polar assumptions as historically undemonstrable. An alternative approach is to enumerate the personality traits, capacities and idiosyncrasies common to successful entrepreneurs, and then try to relate these to what they do. The lack of statistically manageable data would render this approach impossible.

Jenks (1950, p.95) has taken the view that

personality traits and capacities then enter into the purview of field theory only for the specific ranges of social situations in which they are expected to become manifest. One important corollary for the empirical study of entrepreneurial history may be drawn. It is not necessary to ascertain everything that may have been true about all individuals in the past in order to be able to make significant statements about pluralities of them, or about the way they were related to the activities that they carried on.

By drawing upon another conception "linking together individual and society" (*ibid.*, p.96) Jenks has indicated a means of determining which personality characteristics are requisite for

the role of entrepreneurship. The role of entrepreneurship

designates certain aspects of personality as relevant to, not apart from, the study of entrepreneurial activities. By specifying socially shared expectations, it provides a basis for selecting what is relevant about the personalities of entrepreneurs from the mass of things that by some technique or other, or in some other frames of reference, might be found true about the individuals who perform entrepreneurial functions. No given role exhausts personality; it represents merely some kind of organisation of personality for limited purposes, an organisation largely in terms of the requirements of the social structure. We are not required to know everything about every individual before making fruitful general assertions. (Jenks, 1950, p.97)

The author has accepted the Jenks assertion and therein follows justification for the inclusion of particular personality traits in the conceptual model which forms the foundation for the study. Such justification, hereunder, consists of an analysis of each relevant variable, based upon prior research, and, later, the inclusion of each factor in the model in appropriate relation to other factors.

One study devoted solely to an evaluation of the personality of the successful small business manager (Pickle, 1964) produced rank correlations between business success and five personality characteristics - thinking ability (.464), drive (.467), human relations ability (.532), communications ability (.615) and technical knowledge (.522). Pickle has stated that he, along with Jenks, considers that previous attempts to identify personality traits have created conflicting opinions and confused findings. In his study, Pickle combined a large number of traits culled from a wide cross-section of literature into the five

general characteristics listed above. He identified certain difficulties faced by researchers trying to determine personality traits of business managers, which contribute to success. One is the problem of definition - many such traits are not objectively observable and definable. Another difficulty is caused by overlapping of terms, making it hard to draw clear distinctions. A third matter is the fact that a person is more than the sum total of his personality traits. Interaction between various traits must not be neglected in personality studies.

For the purposes of this study the personal characteristics chosen as variables are human relations ability (interpersonal response traits), role perception (which Pickle did not use), and achievement motivation (which subsumes Pickle's 'drive'). 'Thinking ability' is not used in this study as a separate characteristic but is assumed to feature in high achievement motivation. 'Technical knowledge' is not regarded as a personality factor in this study, but is included in experience and preparation. The remaining item from the Pickle (1964) study, 'communications ability', is inherent in 'human relations ability' and thus is not treated separately in this study. As has been discussed elsewhere in this thesis, to understand the relationships between two or more variables it is useful to introduce further variables into the analysis. The question then arises - which additional variables should be introduced? Significantly, sociological variables tend to be "block-booked" (Rosenberg, 1968, p.27). Thus, when one particular feature of any individual is referred to, he is, at the same time, being described in terms

of other concomitant features. Identification of these accompanying features provides relevant test factors. Accordingly, plausible rival hypotheses may be postulated, to test the strength and validity of the primary relationships. In this study, a number of plausible secondary factors are recognised, and used, to gain more meaningful interpretation of the major relationships, by reducing the possibility of spurious interpretation. For further discussion of this aspect of the study see Section 1.1 and Chapter 3.

The role of the entrepreneur in economic history was largely ignored until the vision and energy of Joseph Schumpeter, Arthur Harrison Cole, Leland H. Jenks and Thomas Cochran led to the 1948 establishment, at Harvard University, of the Research Center in Entrepreneurial History. Many other scholars, including Dr Fritz Redlich, all members of the prestigious guild of economic historians at Harvard, took study or teaching appointments at the Research Center. The success and prestige of the Research Center is accepted widely and, in its formative years, the dedication of Cole was largely responsible. His firm resolve to "study the central figure in modern economic history" (Cole, 1946, p.8) became obvious, as did his "conception of entrepreneurial research as an inclusive, integrating branch of scholarship" (Aitken, 1965, p.8)

Aitken, who was associated with the Research Center during this early period, described the prevalent attitude and optimism of the researchers with the words:

Almost anything that might conceivably concern a

historian or social scientist was possibly relevant. Directly or indirectly, if you were interested in research in the social sciences and had some sense of history, what you were working on probably had something to do with entrepreneurship. It could be 'tied in'. This conception of entrepreneurship as an integrating focus for historical research pervaded all the later work of the Research Center. Its implications were obvious. It meant that the Center was unusually hospitable to interdisciplinary work and that people from a wide variety of specialties could find in it a reasonably comfortable intellectual home. But it also meant difficulty in the construction of rigorous theory and, as a result, problems in maintaining liaison with those social scientists, and particularly the economists, who regarded rigorous theory as the hallmark of respectability. (Aitken, 1965, p.8)

There are available several analytical and empirical studies which link the function of entrepreneurship to the phenomenon of economic change. Entrepreneurial activity serves the promotional and survival objectives of business with three distinct but closely related processes - innovation, management and adaptation to environmental pressures. Cole (1946, p.7) has pointed out that

economic advance, at least insofar as it springs from business and not from governmental or other forces, is largely a consequence of innovations by individual enterprises copied by competing business units. These innovations may be of any sort, from the organisation of a business unit itself - the launching of an enterprise novel in product, place or form - to a new method of packaging a manufactured item. They may be innovations of technological equipment and productive processes, or they may be purely innovations of management. Also, one may properly conceive of innovations pushing out, first in one sector of operations and then in another, first by one enterprise and then by another, like the advancing front of a long battle line. Advantageous innovations, made effective by efficient management, are copied by other enterprises; the differential advantages of the innovating institutions are repeatedly lost; marginal expenses are reduced; and the phenomenon of economic progress - greater productivity at lower human cost - is attained.

Cole may be accused of attributing all economic progress to the entrepreneur, to the exclusion of other possible factors. However, careful study of Cole's work shows that he has spelled out certain conditions for entrepreneurial innovation. The "restless, innovating businessman" (Cole, 1946, p.2) operates through a business enterprise, and for his particular abilities and energy to be effective, the instrument of and medium for his entrepreneurial activity must have considerable freedom of action. In Cole's words (*ibid.*, p.10):

What seems most important for economic evolution is a composite of elements which together condition efficiency of entrepreneurial activity. First there must be a favouring environment: the prevalence of an adventurous spirit either in men or in organisations; the existence of potent incentives, whatever their nature; an opportunity to reap rewards adequate to continued initiative; and, if entrepreneurship is to have sustained development, provision for succession and the training of successors to those who launch new enterprises.

This statement clearly implies that entrepreneurship can only exist and flourish in societies which have considerable decentralization of economic power. In other words, entrepreneurship is not distributed uniformly or randomly through history, but is found only in situations in which controls over economic activity are relatively relaxed.

From both Schumpeter and Cole there has come a powerful assertion that economic processes are not automatic, but that there is in every economic system, a designing, directing, co-ordinating function to be performed. If economic reaction to the need for change is usual or traditional, there is an adaptive response. If the reaction is outside the area of the traditional there is

creative response. Both Cole and Schumpeter have offered essentially compatible views on the nature of the creative response to social/economic forces, although there are significant differences of emphasis.

More than twenty years earlier a similar thesis was presented by the initial president of the American Economic History Association, Edwin F. Gay (1923, p.12), who wrote that

the self-centered, active individual is a disruptive force, and there are periods in the rhythm of history when the cake of custom must be broken, when that disruptive, innovating energy is socially advantageous and must be given freer opportunity.

The most convincing empirical evidence of the link between the entrepreneurial role and the phenomenon of economic growth is that from McClelland and his associates. McClelland (1961) enumerated and deprecated a number of propositions offered as possible causes of economic development, including race (Fanfani, 1935); me'somorphy (Sheldon, Stevens and Tucker, 1940; Morris, 1948); climate (Huntington, 1915); the generality of Toynbee (1954, Vol.VIII, p.497) who stated

that in the history of the civilizations a progressive qualitative differentiation is one of the characteristics of growth; but we have also found that growth is not an automatic process but is the hard-won reward of an effort that makes a continual and exacting demand on the growing individual's or growing society's will-power, since it has to be perpetually renewed in a series of responses to challenges in which a successful response to one challenge always evokes a fresh challenge, with the consequence that every solution of one problem brings with it the presentation of another.

and the even greater generality of Spengler (1932).

from
Cole 1965
p. 30-31,
p. 324
Gutter
readings
1946
81

1979

McClelland (1961, p.3) introduced his thesis with the view that

it has become of very great importance to understand some of the forces that produce rapid economic development. It would certainly not surprise us to discover that these forces lie largely in man himself - in his fundamental motives and in the way he organises his relationships to his fellow man.

McClelland's theories and empirical studies have derived from his perceived need for psychological and sociological explanations, which have taken him far outside the traditional realm of economics wherein the

model of development is a rational one in which enlightened self-interest of man converts pressures acting on the economic system from inside or outside into activities resulting in greater productivity or wealth. (McClelland, 1961, p.8)

McClelland has indicated that he is aware of a growing insistence among many modern economists that men do not behave entirely according to rational considerations - at least 'rational' in the eyes of others! There is a growing literature supporting the belief (and substantiated with historical evidence) that the fundamental motivational forces underlying economic development are not to be found within the rational precepts of economics.

Max Weber (1904, 1922), the German sociologist, offered one of the first non-economic explanations of economic behavior when he proposed the argument that economic rationality and the enterprising spirit of modern capitalism had chronological associations with particular religious views - those espoused by Protestants generally, and Calvinists specifically.

Schumpeter (1934) saw the innovative entrepreneur, motivated by strong desires to achieve, as the prime stimulator of economic progress. Meier and Baldwin (1957) have criticized neoclassical

economists for adhering to an economic model which takes for granted too few non-economic factors. Wright (1958) has taken the Keynesians to task for over-reliance on theoretical and self-evident assumptions without empirical evidence of how people actually do behave under various conditions. Sawyer (1954), in a discussion on the place of inventions and technological breakthroughs in economic development, has shown that we tend to regard the economic justifiability of inventions, at the time, in terms of later economic success. Improvements which subsequently prove economically viable are invariably regarded as justifiable on rational economic grounds at the time of the invention. Sawyer has provided evidence to the contrary and stated that "it was only the simultaneous irrational efforts of many people that ultimately justified the enterprise of some of them" (1954, p.142). Rostow (1952) and Lewis (1955) have both insisted that economic analysis must be linked with fairly explicit sociological and psychological variables. Lewis has argued that the desire to own or possess is a psychological factor which leads to essentially economic behavior. Parsons (1949, 1951, 1958) and Parsons and Smelser (1956) have developed a taxonomy of sociological characteristics pertaining to developed industrialized economies and to underdeveloped societies. What the latter have attempted to produce is a description of the essential characteristics of the social structure of modern industrialized societies which differentiate them from underdeveloped societies.

While there is rather widespread acceptance of the point of view that at least a partial explanation of economic growth will be

found in the realms of psychology and sociology, there is not, as yet, anything more than a tentative start to the development of a sociological theory of economic growth. Perhaps McClelland and his associates have provided the genesis of such a tenable theory.

2.3 EARLY LIFE AND FORMATIVE INFLUENCES

The point has been made that very little is known about the kinds of people who create a business enterprise of their own. As indicated in the preceding discussion of the popular traditional conception of the entrepreneur, the amount of conjecture, speculation and imagination far outweighs concrete and empirically reliable information. This study has been constructed around research into the origins, motivations, patterns of behaviour and other personal characteristics of the independent entrepreneur.

The entrepreneurial act, the successful establishment of an independent business venture is seen by Collins, Moore and Unwalla to be "an act patterned after modes of coping with ... early child experiences" (1964a,p.69). From their analysis of a series of intensive depth interviews in Michigan, U.S.A., between 1945 and 1958, Collins, Moore and Unwalla concluded that "the act of creating a new business is not an isolated and unrelated event in the lives of men" (Collins and Moore, 1970, p.13). The fundamental thesis of the Collins, Moore and Unwalla study is that organisation makers are a product of the past experiences of life and the coping strategies adopted by such

persons. While not expressly concerned with inherited characteristics which may inevitably propel an individual into the entrepreneurial act, Collins and Moore have presented convincing evidence that the entrepreneurial act is the culmination of a life pattern which has developed the individual to the stage where he has the requisite background to establish successfully his own independent venture.

Collins and Moore have recognised that the "creation of a new business, like any form of creativity, is dependent upon the mastery of fundamentals" (*ibid.*, pp.13-14), but also have perceived the need for something further.

The creation of a business ... requires, however, something more than a knowledge of technique. It requires an inner force that can be translated into mastery over the checks and setbacks, the apparently insurmountable obstacles, and the never-ending stream of difficulties with which any man who performs a truly creative act must cope. (*ibid.*, p.14)

Such "inner force" involves "motivation bordering on obsession, a drive that possesses a man and keeps him struggling in the face of obstacles and frustration" (*ibid.*, p.15). Such attributes are not found in all people; they are developed in the school for entrepreneurs - formative configurations of social, economic, cultural and psychic experiences from childhood to maturity.

According to the Collins and Moore study, entrepreneurs frequently were involved in varied childhood crises, which gives the strong impression that, in contrast with non-entrepreneurs, the former saw their childhood days as stormy, stressful and not particularly happy. Vivid experiences can be recalled, namely, being orphaned,

battles against extreme poverty and deprivation, parental absence and unreliability, paternal brutality and drunkenness and parental emotional remoteness and indifference. Collins and Moore have recorded memories of "fathers [who] out of maliciousness, sloth, or incapacity, failed to provide economic support and moral leadership" (*ibid.*, p.24), "the absence of stable and reliable adult figures" (*ibid.*, p.23), "the improvident father ... the dominant and the untrustworthy adult" (*ibid.*, p.35), "a father who was present and able to provide for his son, but who was emotionally withdrawn from him" (*ibid.*, pp.34-35), and "the parent removed physically, economically, or emotionally from the family, the feeling ... of pure rejection" (*ibid.*, p.24). From such circumstances, Collins and Moore have concluded that a pattern of reaction has been developed in these persons, which leads them to be independent and self-reliant, to "distrust situations in which others control their destinies" (*ibid.*, p.23), to see their "poverty and deprivation as the triggering experience leading to entrepreneurship" (*ibid.*, p.25) and to resent authority and authority figures. Data presented by Collins and Moore (*ibid.*, p.18) indicate that 30% of the entrepreneurs in their sample of 80, had fathers whose principal occupation was labouring. One could reasonably surmise that experiences such as those recounted above would more readily occur in families which were predominantly lower class. The fathers of a further 25% of the entrepreneurs in the Collins and Moore sample had owned a small business, and many of this group had reported that the parental business had either failed or been only marginally successful. For such persons childhood was no doubt frequently influenced by the consequences of fringe-poverty.

Collins and Moore have offered the proposition that such early experiences develop a "leaving pattern" (*ibid.*, p.34), a strong desire to escape the physical and emotional burdens placed on young shoulders by such circumstances as those listed above. Not only emotional escape or withdrawal is evident, but in more than a few cases, actual physical escape has been the strategy. In later life the entrepreneur may again meet the dominating and untrustworthy adult - school teacher, boss, senior partner or bank manager - and although, by requirement or necessity, often dependent upon, and using such people, the entrepreneur will seek an early opportunity to be free of such dependence. According to Collins and Moore (*ibid.*, p.36), he seeks to "irrevocably sever the relationship". This flight from the insecurity of emotional and/or economic dependence upon others appears a paradoxical strategy, except that it is a rational reaction for the individual concerned. It often involves moving into new and strange situations which also tend to be insecure, at least in the early stages.

When the potential entrepreneur is analysed through his educational career, a similar pattern emerges. Various studies of the educational progress of both business owners and salaried executives indicate that both tend to remain in educational institutions longer than the population mean leaving year, but the corporation executive generally progresses beyond the entrepreneur at school. Collins and Moore have presented the following data in support of this contention. (*ibid.*, p.50)

TABLE 2.1 EDUCATIONAL LEVEL: ENTREPRENEURS COMPARED WITH BUSINESS LEADERS AND GENERAL POPULATION IN MICHIGAN

Educational Level	Percentage of Entrepreneurs (a)	Percentage of Business Leaders (b)	Percentage of General Population in Michigan 25 years old and older (c)
Less than high school	17	4	37
Some high school	19	9	22
High school graduate	25	11	26
Some college	19	19	8
College graduate	20	57	7
(a) Number of entrepreneurs reporting level of education : 84			
(b) From Table 39 in Warner, W.L. and Abegglen, J.C., <u>Occupational Mobility in American Business and Industry</u> , Minneapolis, University of Minnesota Press, 1955, p.96.			
(c) Computed from data appearing in U.S. Bureau of the Census, <u>U.S. Census of Population: 1960</u> .			

Source: Collins and Moore, 1970, p.50.

There would appear to be a natural connection between the generally low to middle socio-economic background of most entrepreneurs and their tendency to withdraw from formal education earlier than professional executives. Drawing on the Collins and Moore thesis, that entrepreneurial 'types' generally dislike and distrust authority and situations structured by others, provides further reason why such persons are unwilling so often to persevere at school. By such withdrawal from an uncomfortable situation (once the perception of formal schooling being a useful experience is dispelled), the pattern of leaving is further reinforced. If actual quitting of school is prohibited, the perverse individual can find many ways to demonstrate his incompatibility and even hostility.

After the completion of formal education, the entrepreneurial 'type' enters "the true school for entrepreneurs" (*ibid.*, p.63) for some years. It is an education not offered by formal educational institutions. Some individuals drift through a varied series of experiences, many of which are bitter - lost jobs, lost investments, insolvency and exploitation of sponsors. It is, for them, a continuation of the insecurity and deprivation of earlier years, characterized usually by a dislike for routine, distrust of those in authority, a low level of formal training and a diffuse restlessness.

Others move into protégé-sponsor relationships, which temporarily provide a challenge, but they soon tire of the situation and leave. Most use the protégé-sponsor situation to learn new occupational skills and new techniques for dealing with others, but unlike the men who can follow a sponsor long and loyally, and who will advance into the upper echelons of larger organisations, the entrepreneurial type becomes uncomfortable in this confining relationship and yearns for his independence.

Ultimately the potential entrepreneur comes to the act of entrepreneurship or creation - he establishes his business venture. At some time prior to the actual creative act there will be a conception of going into business. Such an idea must be converted into a projection of business activity - to the point where it has become an action directive or a motivating force. Collins and Moore have postulated that, for almost all entrepreneurs, entry to the social role of business projector begins with the disturbance of a previous life pattern. Men

often become projectors in a moment of desperation - they come to realize that they can never measure up to the demands made upon them in organisations owned and structured by others.

During their years in the school of entrepreneurs, they had come to realize they could not continue in situations in which their security was dependent upon forces outside themselves. (*ibid.*, p.96)

This precipitative event has been labelled by Collins and Moore as "role deterioration" (*ibid.*) and, typically, entrepreneurs respond to such situations by leaving them, rather than by solving them. The period of role deterioration is a crucial one in the lives of entrepreneurs and "given their character formation, is almost predestined to happen" (*ibid.*, p.113). Not all persons who face loss of jobs, blocked advancement, or other experiences constituting role deterioration respond by establishing their own business ventures. In fact those who do so are a rather unique minority group.

Men who become independent entrepreneurs have undergone further special training and conditioning. Somewhere, they must be exposed both to the idea of entrepreneurship and to the skills involved in it. Those men who fear situations structured by others and the training required for them are those who, in the period of role deterioration, begin to evolve a project. The period of role deterioration may be viewed from the short-range view as a dangerous and trying situation. From the longer point of view, however, it is the moment of freedom from an essentially restrictive and threatening situation. It is a necessary stage in the career of the entrepreneur. This is the moment for trying one's wings. The truly independent entrepreneur is prepared for it. He begins to think about a project. At this stage of the game, it is this propensity to think about a project that marks him as an independent entrepreneur. Many men in moments of frustration will only play with ideas for businesses. The entrepreneur, if he is to be independent, must go beyond this. (*ibid.*)

He begins to think through the series of events necessary to result in the creation of his firm. It is a highly creative and cognitive process. Yet, it is also "an act of commitment at the emotional level" (*ibid.*, p.117), and the projector "may have to delay for years the psychological gratifications he so desperately needs" (*ibid.*).

In following through the life-style of the entrepreneurial 'type' there is evident an almost magnetic pull towards the inevitable act of entrepreneurship. Such an act of organisation creation is a complex and highly idealistic operation, which, to be ultimately successful, demands technical skills of the highest order as well as appropriate mental/emotional conditions. During their formative years independent entrepreneurs are motivated by an impelling restlessness, and a lack of emotional responsibility towards others, once the utility value of a relationship has passed. The restless nature of the entrepreneur is manifested in the pattern of breaking away, and the rationale for this is seemingly based upon the emotional revolt caused by and inability or unwillingness to submit permanently to subordination or dependence.

Such patterns were learned through childhood and reinforced in early adulthood, by drifting and sponsor/protégé relationships. Entrepreneurs learn "that no relationship need carry with it a continuing commitment" (*ibid.*, p.88), and need only be maintained when of benefit or profit. Entrepreneurial skills, as distinct from technical skills, were also learned during these years - "the rudiments of bringing together resources, of

setting up structures, and of severing restrictive and unprofitable relationships" (*ibid.*).

The most relevant and significant aspect in the development of the entrepreneurial mode is what Collins and Moore have called the "transactional model" (*ibid.*, p.89) of interpersonal relationships. The leaving pattern, drifting and protégéship are all part of the transactional model in its protective and defensive facets, and the entrepreneur must learn more than these strategies.

Full-fledged entrepreneurship involves mastery of the positive modes of the transactional model. In fact, the positive mode is entrepreneurship. The act of entrepreneurship is that bringing of ideas, skills, money, equipment, and markets together into a profitable combination ...

[The entrepreneur] sees, always, the bringing together of people into a new arrangement. This is because, always, he must move through people. He sees these people interrelated in terms of the transactional model. If, for one moment, he strays away from this model and gets involved emotionally, he is lost. (*ibid.*, pp.89-90)

The transactional model is perceived by entrepreneurs as a rational mode of behavior. Not only does it fit the traditional Protestant ethic and the concept of profit motive, but it also satisfies the entrepreneurial need for independence and utility-based interpersonal relationships.

It gives him a culturally acceptable set of values to serve as a rationale for forming and terminating relationships, and, at the same time, it gives him the skills and techniques (the *modus operandi*) for rapidly forming and dissolving alliances. (*ibid.*, p.92)

Further consideration of interpersonal relationships pertaining to successful entrepreneurship is offered in Section 2.42.

Curran and Stanworth (1971) have studied first generation entrepreneurs, to take "into account the links between personality, environment and culture" (p.324). Their analysis involved an investigation of the psychological and sociological antecedents of the entrepreneur. Whereas Collins and Moore (1970) identified a single precipitative event, labelled "role deterioration" (p.96), Curran and Stanworth have suggested "social marginality" (*ibid.*, p.325) as the stimulus. Social marginality is the idea that one's identity and talents are incongruent with his role(s) in society. The socially marginal person will frequently seek to alleviate his psychological discomfort by changing his role. Curran and Stanworth see society's supply of socially marginal individuals, partly as a function of the rate of social change and partly due to the "lack of 'fit' or integration between different parts of society" (*ibid.*, p.327):

The first-generation entrepreneur, it appears, tends to be the socially marginal person whose entrepreneurial role represents his attempt to re-make his relations with society in order to reduce the discrepancies in his life. So while the need for achievement may render the idea of the entrepreneurial role attractive for many, it is only the person who sees the discrepancies who has the extra incentive to actually make the jump. (*ibid.*, p.325)

Other formative influences are significant in the early life of the entrepreneur. In particular there are child-rearing practices used by parents, with their effects on achievement motivation and independence, both of which are vital components of the entrepreneurial role. These will be discussed below, with achievement motivation.

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If either of the two studies examined in this section has offered a valid thesis, then it should follow that successful small business entrepreneurs will, generally, possess many of the behavioral/attitudinal characteristics which derive from the patterns of personal development described. This study will test this proposition, in the Australian context. It will be hypothesized that life style is a significant factor in the development of entrepreneurial propensity.

2.4 PERSONALITY CHARACTERISTICS

This section presents discussion of research findings on each of the independent variables in this study, which can be regarded as personality characteristics.

2.41 ACHIEVEMENT MOTIVATION

Of all the nominated aspects of entrepreneurship, none has received more widespread and thorough research attention than achievement motivation - the need for achievement (n-Ach, or n-Achievement). The literature on entrepreneurship has tended to be of two distinct types - that written by economists and economic historians, and that written by psychologists. Apart from the previously mentioned interest and study by those associated with the Harvard Research Center in Entrepreneurial History, the economists' analyses have dealt with entrepreneurship from a functional viewpoint which has often resulted in the entrepreneur being dehumanized and converted "... into a mere formal relationship between inputs and outputs" (Aitken, 1965,

p.15). Even when individual entrepreneurs are the subject of study, as in the many biographies of self-made men, the author is for the most part confined to a descriptive rather than an analytical approach. Methodology of this type relies heavily on the author's logic of argument and tends to produce hypotheses based on the evidence from a limited sample. But despite many methodological weaknesses, such studies have provided many valuable insights into the entrepreneurial personality.

Using a much different approach, relying for the most part on manipulation of variables under experimental conditions, and using large numbers of subjects, psychologists have produced an impressive inventory of empirical evidence, linking various aspects of human behavior with the individual's psychological and cultural orientation toward achievement. The prime research target has been achievement motivation, an important personality construct which is thought to characterize entrepreneurs - particularly successful ones. It must be emphasized that, with few exceptions, psychologists have been more concerned with the achievement motive *per se* than with producing an explanatory theory of entrepreneurial behavior. Very largely their studies have utilized psychology students, as subjects of investigation, rather than entrepreneurs. The end result is that while the literature on achievement motivation is extensive, it is confined to studies of a rather select, non-business group.

The literature on entrepreneurship is in a state of confusion. That written by economists and business theorists is generally incapable of being systematically tested. The approach used by

the psychologists to study achievement motivation is on sounder methodological grounds, but rarely have the findings been validated in actual business situations. Further, no serious attempt has been made to integrate the findings of the two complementary sources. This study was designed to examine the validity of some of these research findings in actual small business ownership and management.

2.411 The Problem of Definition

A basic problem in psychological measurement and research concerns the definition of the trait to be studied. This first step is both extremely important and difficult. According to Ghiselli (1964, pp.335-336):

When we set about measuring a trait, we first define it and then develop operations designed to yield quantitative descriptions of the extent to which individuals possess or manifest it. Inasmuch as the operations are developed directly from the definition, it might be presumed that they must necessarily measure the defined trait. Yet the definition is only a blueprint, as it were, which may or may not be exactly followed in developing the operations of measurement ... Consequently we are unsure of the nature of the trait with which we are concerned and of the traits which in fact are measured by the operations we develop from the definition.

To some researchers investigating and measuring levels of n-Achievement, the problem of definition seemed minimal. McClelland and his associates have offered and used operational definitions which could be readily measured by the projective Thematic Apperception Test. Other researchers have considered that the problem of definition may not have received sufficient

attention in the initial stages of research and have both dissected the concept of n-Achievement and devised alternative measuring instruments.

Motivation is what prompts a person to act in a certain way, or at least develop a propensity for specific modes of behavior. It refers to a dynamic phenomenon which arises from within an individual; it means

all those inner striving conditions described as wishes, desires, drives and the like ... A motive is an inner state that energizes, activates, or moves (hence 'motivation'), and that directs or channels behavior toward goals. (Berelson and Steiner 1964, pp.239-240)

Motivation is a "a concept, or hypothetical construct, not an overt, observable event" (Ruch and Zimbardo, 1971, p.273). By inferring internal motivation to explain behavior, we try to simplify the complex web of possible interrelations by postulating a single intermediate intervening variable linking the various stimulus inputs to the varied response outputs (i.e. behavior). The psychologist must use available evidence from the stimulus conditions and the observable behavior, to identify and classify motives.

Motivated states are generally initiated by deprivation of something required for biological, psychological or social functioning. Therefore, motivation involves energy arousal, direction of effort toward a particular goal (to satisfy a need), organisation of activity into an integrated pattern, and persistence of activity until the initiating conditions (stimuli) are changed by goal satisfaction. Motivation theory attempts

to explain

how behavior gets started, is energized, is sustained, is directed, is stopped, and what kind of subjective reaction is present in the organism while all this is going on. (Jones, 1959, p.11)

Behavioral scientists, concerned with understanding motivation in the work place, have confronted the problem of assessing the utility of a number of motivation theories. The two most fully developed and widely accepted are the *drive X habit* and *expectancy X valence* theories.

The *drive X habit* theory has evolved from much experimentation on learning and re-inforcement, and explains behavior in terms of interaction of drives, habits and incentives. There is a heavy dependence on past experience and learning, and consequently, the applicability of this theory to the analysis of complex, judgmental behavior, usually associated with the entrepreneurial *modus operandi*, is rather limited (Lawler, 1971).

The theory of achievement motivation is one of a class of theories which attributes the strength of a tendency to undertake some activity to both the cognitive expectation that the activity will produce a certain outcome, and the attractiveness or valence of that outcome to the person. In the *expectancy X valence* theory there are three key variables. Atkinson (1957) has labelled these motive, expectancy and incentive, the latter two being adopted from Rotter (1954) and Tolman (1955). Motive is conceived by Atkinson (1966, p.13) "as a disposition to strive for a certain kind of satisfaction", rather than the popular connotation of nondirective but energizing drive. Expectancy is

⊗ The date should be 1955; furthermore, William obviously made up the "p.11", because

a cognitive anticipation that the performance of a particular act will produce a particular result. Incentive represents the relative attractiveness or unattractiveness of the behavioral outcome i.e. of the achieved goal, or the consequence of the act. To Atkinson (1957) the strength of the motivation to behave in a particular way is a multiplicative function of these three variables, thus:

$$\text{Motivation} = f(\text{Motive} \times \text{Expectancy} \times \text{Incentive})$$

Atkinson (1966, p.13) has expressed the view that achievement, affiliation and power motivation are possibly misnomers, since they are really

... classes of incentives which produce essentially the same kind of experience of satisfaction :
pride in accomplishment, or the sense of belonging and being warmly received by others, or the feeling of being in control and influential.

Porter (1971) has labelled the three key components of motivation:

Type 1 Expectancies (that a given amount of effort will lead to some level of work-related accomplishment,

Type 2 Expectancies (that a given level of accomplishment will lead to particular desirable or undesirable outcomes and

Valence of Outcomes (the relative preference one has for each of the possible outcomes). A model of motivation developed by

Vroom (1964) is similar to that of Porter (1971) although he labels Porter's Type 2 Expectancies as *Instrumentalities*.

Motivation to perform, from Vroom's viewpoint, is determined by the interaction between the expectation that a given amount of effort will lead to a certain level of performance, and valence or attractiveness of that performance level for the individual.

The theory of achievement motivation relates to a significant and specific domain of behavior, namely achievement-oriented activity. The achievement motive is characterized by

the striving to increase, or keep as high as possible, one's own capability in all activities in which a standard of excellence is thought to apply and where the execution of such activities can therefore, either succeed or fail ... Standards of excellence, therefore, are the mark of the achievement motive insofar as the individual perceives such standards as personally binding, compelling, or obligating. (Heckhausen, 1968, pp.107-108)

This trait has also been described as a "disposition to approach success" (Atkinson, 1966, p.13), "the urge to improve" (McClelland and Winter, 1969, p.14), "a desire to do well, not so much for the sake of social recognition or prestige, but to attain an inner feeling of personal accomplishment" (Novack and Lekackman, 1964, pp.180-181), "a generalized concern with meeting standards of excellence" (Brown, 1965, p.430) and as "a tendency to strive for success in situations involving an evaluation of one's performance in relation to some standards of excellence" (Morgan, 1964, p.246). Rosen (1959, p.49) has described "the behavior of people with high achievement motivation [as] characterized by persistent striving and general competitiveness". McClelland (1965a, p.8) has represented his subject thus:

the person with a high need for achievement is more self-confident, enjoys taking carefully calculated risks, researches his environment actively and is very much interested in concrete measures of how well he is doing. Somewhat surprisingly ... he does not seem to be galvanized into activity by the prospect of profit; it is people with low achievement need who require money incentives to make them work harder. The person with a high need works hard anyway, provided there is an opportunity of achieving something. He is interested in money rewards or

profits primarily because of the feedback they give him as to how well he is doing. Money is not the incentive to effort but rather the measure of its success for the real entrepreneur.

The nature of high n-Achievement behavior, particularly as it is found in the entrepreneurial role, will be discussed in more detail in Section 2.414.

2.412 The Problem of Measurement

The history of the development of the construct of achievement motive is a story of research progressing from clinical studies of individuals, to experimental manipulations of situations and the measurement of fantasy behavior, to the measurement of the general level of a motive in a country, to a demonstration of a relationship between that level and the country's standards of economic productivity. From a rudimentary conceptualization and an unsophisticated technique of assessment, there have been developed sophisticated measures of human motivation, and some promising insight into a factor which may be critical in determining the economic fate of underdeveloped countries. The latter has involved research that has been described as "one of the more audacious investigations in the history of social science" (Brown, 1965, p.450).

Murray (1938) categorized human needs and reported on a projective technique for the measurement of covert and unconscious imagery. One need noted by Murray (*ibid.*, p.67) was the need for achievement, which he defined as a "need to overcome obstacles, to attain a high standard, and to excel, rival or surpass

others". Murray developed a projective technique, the Thematic Apperception Test (TAT), in which the subject is presented with a series of pictures and is asked to write a short story about each. It has been argued (McClelland *et al*, 1953; McClelland, 1958) that a person's responses to the TAT instrument provide an index of his imagery patterns, the sort of things he will think about in the type of situation he sees in the pictures, and the direction in which he will probably move in similar situations. Hence, the test relies heavily on the ability of the subject to fantasize when writing a story, thereby revealing his emotional substance.

In justifying his acceptance and use of the TAT as a measure of n-Achievement, McClelland has drawn on Freud's work and ideas. According to McClelland (1961, p.38), Freud "destroyed forever (except, perhaps, in the minds of economic theorists) the notion that motives are rational or can be rationally inferred from action". Recognizing that simple acts may be caused by a multiplicity of motivations, McClelland (again from Freud) devised a means of discovering what motives a person has - by searching "in dreams and free associations - in short, in fantasy - for clues to irrational motives" (*ibid.*).

McClelland *et al* (1953) have described how they aroused the achievement motive in groups of subjects to observe how it affected behavior. They needed an index of the presence of an aroused desire for achievement, because assuming, *a priori*, that the strength of the achievement motive can be reliably, simply and directly inferred from overt behavior is to ignore

the impact of sundry other factors, including ability, and desire for social approval, power or knowledge. The method adopted was to measure the extent of achievement imagery by analyzing a sample of a person's spontaneous thoughts. Accordingly, the effects of aroused achievement motivation on fantasy were controlled and measured.

The arousal of n-Achievement was produced by administering tests in which individuals were assessed in terms of very desirable criteria, such as standards of excellence like intelligence and leadership capacity. Full information on instructions and the assessment criteria was given to an experimental group, and not to a control group. After the completion of the tests all subjects were asked to create a series of stories based on a set of pictures centred around work situations. Scoring methods were developed for these TAT protocols by comparing stories written when achievement motivation was purposely aroused, with those written when it was not aroused (McClelland *et al*, 1953; Atkinson 1958). These researchers have justified their use of the fantasy measure as an index of n-Achievement in preference to observation of overt behavior. In fantasy anything is possible - at least symbolically. Overt reaction is more constrained by parameters set by reality and perceived ability. Fantasy is more readily influenced by arousal stimuli. Also, fantasy more clearly indicates which motive is aroused, whereas overt behavior is influenced by other factors.

Obtaining n-Achievement scores for subjects was carried out by summing the achievement-oriented thoughts which were expressed

in response to the story writing instruction. A person whose thoughts, especially without experimental arousal, consistently tended to relate to achievement, success, competition and personal accomplishment, was accepted as having a higher level of achievement motivation than a person whose thoughts were less achievement-oriented. This particular technique has been widely used in research aimed at relating n-Achievement to economic development.

Despite the apparent popularity of the TAT device, an increasing number of researchers are questioning the efficacy of several aspects of the instrument. In particular, Klinger (1966) has noted its lack of internal consistency, lack of test-retest reliability, deficient validity against performance criteria and low inter-correlations among several projective n-Achievement measures. Carney (1966) has shown that the TAT instrument is more sensitive to irrelevant situational cues (such as examiner effect) than a questionnaire measure of n-Achievement. Despite their consistent use of this measure, McClelland *et al* (1953) have acknowledged that the TAT instrument is not independent of test anxiety, a finding which casts some doubt upon its discriminant validity. Lynn (1969, p.529) has stated that

achievement motivation is at present measured by the TAT which has certain disadvantages. The chief of these are the imperfect reliability from one scorer to another, the training which the scorer requires, and the onerousness of the process of scoring ...

The two matters of reliability and validity of the TAT measure have concerned researchers, and have led to various attempts to construct reliable and valid questionnaire type instruments.

2.4121 TAT Validity

The data relating to TAT validity are quite confused. McClelland, Atkinson and their colleagues have gathered impressive evidence of TAT construct validity by determining that subjects scoring high on the fantasy measure of n-Achievement also behaved in other ways that would be consistent with the construct. Construct validity involved determining the conditions for the development and arousal of the motive, and demonstrating relationships between TAT scores and other variables which were predicted by the theory behind the construct.

One method of validation would be to relate the TAT score with some unique external criterion. In practice this direct method is rarely possible. Actual achievement is determined by many factors, only one of which may be the individual's strong desire to succeed. However, if the TAT instrument gave repeated poor or negative correlations with the actual achievement criterion, serious doubts about the validity of the instrument would be justified. The TAT has a somewhat mixed record on this particular validity gauge. Studies by Lowell (1950), French (1955) and Wendt (1955) have indicated significant relationships between TAT scores and overt achievement behavior. Other supportive studies include two reported by Lindzey (1965), which come into the "unknown groups" method of validation, whereby the instrument is administered to two groups of subjects, one of which is known to possess the trait in question to a greater degree than the other. In one of these studies, TAT protocols from homosexual and heterosexual students and prisoners were

analyzed by both projective and actuarial methods. The projective techniques were more successful in predicting criterion than were the objective indices. In the other study, involving college students, a psychologist, using the method of blind analysis of TAT protocols, was able to distinguish between homosexuals and heterosexuals with 95% accuracy (N=165). Henry and Farley (1959), in a study comparing the predictive ability of 36 TAT protocols with objective test scores, summaries of observations and interviews and Rorschach interpretations, showed that the TAT, when properly administered, has superior predictive validity. Atkinson and Litwin (1960, p.52) have made the point that

since 1950 there have been an increasing number of studies using thematic apperceptive (or equivalent) measures of n-Achievement ... which amply demonstrate that knowledge of motivational differences enhances prediction of achievement related performances.

In contrast to the foregoing evidence, other studies have produced results which shed serious doubts on the TAT as a valid instrument. Broverman, Jordan and Phillips (1960), Cole *et al* (1962) and McKeachie *et al* (1968) have failed to find significant relationships between TAT measured achievement motivation and successful achievement-oriented activity. In a complex study (Little and Shneidman, 1959) in the area of differential diagnoses, of four tests (the TAT, Make a Picture Story, Rorschach and the Minnesota Multiphasic Personality Inventory (MMPI)) compared with extensive interviewing of four distinct personality types, judges using the TAT instrument consistently misclassified subjects, more than with any of the three alternative tests. The

researchers concluded that, of all the tests used, the TAT had the lowest reliability and the poorest predictive ability. In the domain of personality variable prediction, the TAT contributed little to the accuracy of prediction in a study by Horowitz (1962). Jensen (1959, p.313) reviewed TAT research to that date and concluded that "the validity of the TAT is practically nil". By contrast, Harrison (1965, p.597) has stated that "There is impressive evidence that the technique possesses intrinsic validity".

A growing number of researchers have turned to methods of construct validation, by developing and comparing different types of instruments aimed at measuring the same psychological construct. The most notably consistent efforts at construct validation have been to correlate achievement motivation scores, as measured by the projective TAT method, with scores obtained through the use of direct objective instruments. Results have generally been disappointing to those who had hoped for the creation of valid questionnaire-type instruments. Atkinson and Litwin (1960, p.54) have summarized the validation problem, particularly relating to the Edwards (1954) Personal Preference Schedule (EPPS), thus:

To date, there have been strong indications that direct (i.e. assent or preference) and indirect (i.e. imaginative or projective) methods of measuring achievement motivation do not yield comparable results.

This assertion is supported in studies by DeCharms *et al* (1955), on behavior prediction; Birney (1953), who found n-Achievement measures derived from TAT and EPPS to be uncorrelated ($r = -.002$, $N = 300$); and Marlowe (1959), who produced TAT

measures positively correlated with peer ratings of achievement oriented behavior, while EPPS measures were not so correlated.

Atkinson and Litwin (1960), in a study examining the construct validity of three measures of achievement motivation (a TAT type instrument, the Mandler-Sarason (1952) Test Anxiety Questionnaire and the n-Achievement component of the EPPS), with N=47, reported that the three measures were not significantly related, on the basis of Spearman rank-order correlations. The correlations between the measures were -

TAQ and EPPS n-Achievement	.11
EPPS n-Achievement and TAT	-.05
TAQ and TAT	-.15

McClelland (1958) has also stated that n-Achievement scores on the widely used Edwards Personal Preference Scale do not correlate significantly with the TAT scores.

The issue of the validation of the TAT as a measure of achievement motivation is far from settled, and systematic research into alternative ways of measuring this motivational construct is clearly warranted.

2.4122 TAT Reliability

Varble (1968) has asserted that the highly structured use of the TAT by McClelland and others to measure n-Achievement is the only system which has attained a consistently high level of one form of reliability - interscorer reliability. Varble (*ibid.*, p.221) has further declared that agreement between coders

does not truly test reliability of a TAT instrument. In his view, TAT reliability is still largely an unsolved problem, a feature of projective tests generally. Conventional reliability estimates, such as split-half, test-retest and equivalent (or parallel) forms, are in Varble's opinion, not particularly appropriate for assessing TAT reliability because each TAT picture is unique in its content and elicited imagery response. There is also doubt about the value of test-retest reliability calculations, since after a reasonable time span the subject's psychological state is likely to have changed, causing unreliable inferences to be drawn from the subject's imagery responses (Harrison, 1965). Further, Murstein (1968) has indicated that test-retest reliability may suffer because the subject may focus on one aspect of the visual stimulus on the first occasion and on another aspect of the same picture on the next occasion, without the change in focus being necessarily due to any predictable or isolable personality function.

While much interest has been shown in maximizing the reliability of the TAT instrument, evidence supporting the views of Harrison (1965) and Murstein (1968) on test-retest reliability assessment has been provided by Shepps (1967), who has cited the findings of several studies in which reliability co-efficients of .26, .91, .34 and .22 were reported. Weinstein (1969, p.153) has recorded his conclusion that there is "extremely poor reliability - (both internal consistency and test-retest) - for traditional n-Ach measures ...", including the TAT.

Some of these criticisms are strongly contested. McClelland

(1961) used stories appearing in school readers, for 1925 (in 23 countries) and 1950 (in 40 countries), and produced estimates of internal consistency based on the split-half method, corrected for test length, of .75 and .80 for the 1925 and 1950 samples respectively. Berlew (1956) used two judges to score for achievement imagery in his study of ancient Greek economic fluctuations and achievement motivation. Inter-judge correlation was .89. Cortes (1960) reported inter-judge reliability (using rank order correlation) of .94, in his study of Spanish literature achievement imagery. Bradburn and Berlew (1961), in measuring n-Achievement in English literature from Tudor times to the Industrial Revolution, used highly experienced coders who gained an agreement correlation co-efficient of .93.

The above discussion demonstrates that the TAT instrument can, with some justification, be criticized on the very basic issues of definition, reliability and validity. Despite these shortcomings, the TAT instrument (with various modifications) has been widely and consistently used for the measurement of achievement motivation levels, both in laboratory and field environments. While McClelland, Atkinson and many others can be criticized for their choice of subjects, conclusions reached are generally compatible with less rigorous research, by business observers and historians for example, and with folklore surrounding the entrepreneur. As a research tool the TAT has been generally acknowledged to be more useful than other projective tests (Dana, 1968). It is solidly entrenched as a research instrument, primarily as a measure of aroused need conditions (Murstein, 1968).

2.4123 Questionnaire Measures of n-Achievement

Such acceptance of the TAT instrument should not be interpreted as being unanimous. In recent years, many attempts have been made to produce questionnaire-type measuring instruments which would meet acceptable reliability and validity criteria while being easier and less time consuming to administer, particularly to busy and often unschooled businessmen. Noteworthy efforts are attributable to Murray (1938), Edwards (1954), Gough (1957), McClelland (1958), Argyle and Robinson (1962), Morgan (1964), Kahl (1965), Myers (1965) and Raven, Molloy and Corcoran (1974). Some indication of the design for, and outcome of, one recent

attempt to build a questionnaire-type instrument is given below.

How about Costello (1967) - in bibli
Marlowe (1959)
 Hermans (1970, p.353) has reviewed the efficacy of a wide range of projective and questionnaire measures, and has concluded that "the need for a new measure for n Ach still exists" and that

particular emphasis [must be] placed upon the quality of the initial item pool of achievement-related questions from which a questionnaire measure of achievement motivation could be developed and validated.

The resulting pool of items was made "as heterogenous as the theoretical construct ... itself" (*ibid.*, p.354), and included items aimed at enquiring about aspiration level, risk-taking, upward socio-economic mobility, persistence, task-tension, time perception, time perspective, partner choice, recognition behavior and achievement behavior. A bank of 92 multiple-choice items was constructed, keeping in mind the empirical description

of the achievement motive and the need for both internal consistency and discriminant validity of the scales. Items from the bank were treated by iterative cluster analysis and 29 items with a reliability co-efficient of .82 (Kuder-Richardson 20) were extracted. All items so extracted had "satisfactory" representativeness concerning the theoretical description of the achievement-motivated person. In a study of the convergent validity of his scale against performance criteria, Hermans (*ibid.*, pp.359-361) found that, according to the questionnaire, in an achievement oriented situation, subjects with high n-Achievement level performed significantly better than those subjects with low n-Achievement scores. This was not the case with the TAT n-Achievement scores, which showed a lack of relationship with performance in both experimental conditions. This convergent validity investigation was replicated by Hermans with similar results, and he concluded that "in general, the results of the ... studies suggest that it is possible to construct a questionnaire to measure the achievement motive" (*ibid.*, p.362).

The foregoing list of research studies indicates substantial agreement that questionnaire-type measures of n-Achievement are capable of providing reliability and validity values acceptable to the most fastidious researcher, while being eminently more suitable for ex-post-facto field research than the TAT procedure.

2.413 n-Achievement and Economic Productivity

It is possible to trace a growing interest in, and awareness of,

irrational, non-economic elements as fundamental motivational factors supporting economic development. This matter was introduced in Section 2.2. McClelland has expressed his criticism of many of the psychological and sociological explanations of economic behavior for the reason that they were not empirically tested (1961, p.19). The genesis of the McClelland thesis (1961) is drawn largely from Weber's (1904, 1922) analysis of how the Protestant Reformation created a new economic vigour and a new innovative spirit which spurred the move into industrialization and capitalism. The theory of the Protestant ethic has aroused considerable speculation and more than a little empirical rebuttal.

Despite various expressed doubts about the credibility and efficacy of Weber's thesis, there is massive support in the literature for the famous discourse. The usual charge levelled at Weber is that of historical naïveté. He is accused of adopting a simplistic approach to the matter of the relations between religion and social change. What is frequently misunderstood by his critics is the fact that Weber, in *The Protestant Ethic and the Spirit of Capitalism*, did not directly confront the question of causal relationships. Weber affirmed that he had "no intention whatever of maintaining such a foolish and doctrinaire thesis as that the spirit of capitalism ... could only have arisen as the result of certain effects of the Reformation" (1904, p.91). Weber has nowhere attempted to deny the significance of what Marx called the material factors of social change. Having established his descriptive account of the phenomenon of capitalism, he proceeded to show that there

was empirically associated with it, a set of values, or state of mind. This associated phenomenon Weber has ventured to formulate, both descriptively and systematically, as the spirit (*Geist*) of capitalism.

Weber has presented statistical data bearing upon the relation between religious adherence and occupational groupings in parts of Germany, which indicated the tendency of Protestants to outnumber Catholics in both the ownership and management of capitalist enterprise, and also in branches of higher education leading to scientific, technical and business careers. This is followed by the establishment of a close relationship between the mental attitudes in question, the spirit of capitalism, and the ethics of the ascetic branches of Protestantism. He has done this by demonstrating the consonance of two very complex sets of values. Weber was convinced that, in view of the large number of contributing factors in close and specific relation to one another, on probabilistic grounds the likelihood of such congruence being due to chance must be excluded. Consequently, a close functional relationship became highly probable. Although he was careful never to state any causal priority, Weber's evidence speaks for itself - the fact of chronological relations (assuming valid data) strongly suggests (but does not prove) an important but not exclusive causal role to the set of religious attitudes, since it existed prior to both substantial development of the capitalist spirit as such, and large scale propagation and refinement of the capitalist organisation.

The establishment of a high degree of congruence between the

Protestant ethic and the capitalist spirit did not *ipso facto* constitute undeniable proof that the religious ideals were an important causal factor in the genesis of the capitalistic attitude and, through it, of bourgeois capitalism. Weber himself not only granted, but also emphasized, the significance of other factors, including rational bureaucratic administration of the state, modern science and a sound legal system.

The *Protestant ethic* was described by Weber as ascetic activity in the service of God, channeled into active control over one's relations with the world, rather than into ritualistic expressions of faith. 'Ascetic' Protestantism included Calvinism, Pietism, Methodism and the Baptist sects. The ascetic Protestant turned to pursuits where he could labour soberly and rationally, in a calling acceptable to God. Independent, honest business was regarded as a most appropriate field of activity. The essence of asceticism, in the Weberian view, was service, not in the direction of indulgence in things of the flesh or of adaptation to it, but rather, based on control over the flesh and its subjugation to a discipline for the glory of God.

What Weber called the *spirit of capitalism* was a set of attitudes towards the acquisition of money and worldly goods, and all activities associated therewith. It constituted a sanction of secular behavior as an end in itself. Weber has traced, by analysis of Protestant writings, a gradual process of transition from a religious position which, although showing certain important similarities with the capitalist *Geist*, yet certainly would not have sanctioned it, to one which offered direct

ethical justification of acquisitive activities, without limit, so long as they were 'righteous'. Work was one of the highest fulfilments of the ascetic Protestant's personal religious convictions. In its economic context, this doctrine supplied an excellent justification for the successful man, giving him good conscience about his gain, as long as it was honestly and industriously earned. The fruits of such labours were seen as a direct sign of God's blessing.

Having established his descriptions, Weber was faced with the task of providing credible proof of a direct relationship. The chronological relation was proffered and is undeniable. This, of itself, does not provide an acceptable origin of the spirit of capitalism. Roman Catholic ethics, from the late Middle Ages, were not completely hostile to matters of the world, but Weber has suggested two reasons why Catholicism was not a powerful stimulant to the spirit of capitalism. The first was that, in the medieval view, a strict hierarchy of callings existed, the level of respectability of which was based upon their religious value. At the apex was monastic duty, and acquisitive pursuits were not far above the base. Further, as business activities became capitalistic they tended to come more and more under suspicion. The second reason, which very much explained this attitude, was that the whole burden of medieval religious pressure was traditional in relation to worldly callings. Society was regarded as a hierarchy of classes, each in its proper divinely ordained place, and individuals were therefore expected to live and work according to their station in the hierarchy. Thus, Weber has effectively

discounted the ability of traditional Catholic ethics to perform any catalytic function in regard to the rise of the capitalistic creed. He did not fully explore the potential of Judaism in this matter, whereas others have. Sombart (1915) has suggested that basic Jewish values of self-control, hard work, sobriety, thrift and obedience to law were conducive to economic development and were therefore compatible with capitalistic practices. Other philosophical and social forces have also played a role. The 1776 publication of Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations* marked a turning point in economic theory and practice - mercantilism was giving way to the doctrine of laissez faire. Smith's thesis helped set the theoretical foundation for the growing capitalistic ebullience. In 1858 Charles Darwin's *Origin of the Species* emphasized that in the evolutionary process the organism adapted itself to its environment in a continual struggle for survival of the fittest. This concept was extended to the social order by Herbert Spencer, and what is now called 'Social Darwinism' suggests that the most resourceful and capable people will rise to the top of the social hierarchy, as the natural order of things. This philosophy has reinforced the Protestant ethic.

The Weberian thesis has attracted much empirical interest. Bouma (1972) tested three of the major hypotheses arising from Weber's work, viz: Protestants, due to their beliefs and norms, should enjoy higher social status and greater social mobility than Roman Catholics; Protestant beliefs and norms should lead to higher achievement motivation than should Roman Catholic beliefs; and Protestants are likely to attain higher education

and make greater scientific and scholarly contribution than Roman Catholics. From his own research, and his survey of prior research evidence, Bouma concluded that there was no foundation for the acceptance of any of these three hypotheses.

Mack, Murphy and Yellin (1956) in a study based on questionnaire responses from a sample of salesmen, engineers and bank officers, concluded that there were no statistically significant differences between Catholics and Protestants in their actual occupational advancement or aspirations for advancement. From his own analysis of the Mack, Murphy and Yellin (1956) data, Lenski (1961) has asserted that their conclusion was erroneous so far as actual movement was concerned, and that statistically significant differences did exist, demonstrating that Protestants were upwardly mobile more often than Catholics. Lipset and Bendix (1966) also reported finding no differences in occupational mobility rates, using a sample of American voters in the 1952 presidential election, but there were serious methodological weaknesses in their study which put Protestants at a disadvantage. Weller (1960) carried out an intensive analysis of vertical mobility, using a sample of 1,100 white, male Catholics and Protestants. With both ethnic and class origins held constant, white Protestants generally advanced further in their careers than did Catholics.

Rosen (1959) collected data from subjects across six ethnic and five social groups, to test the hypothesis that "racial and ethnic groups were not ... alike in their orientation toward achievement, particularly as it is expressed in the

striving for status through social mobility" (*ibid.*, p.48). Rosen proposed the existence of an Achievement Syndrome, a motive-value-aspiration configuration, the specific components of which are achievement motivation (a psychological factor), certain value orientations (which implement achievement-oriented behavior) and culturally influenced educational-vocational aspirations. Using a version of the McClelland TAT instrument Rosen measured achievement motivation in the 427 sons in his sample (four stories; two judges; reliability estimate of .86). The 427 mothers in the sample were interviewed to ascertain their achievement value orientations, their educational and vocational aspirations for their sons, and their independence and achievement expectations for their sons. Rosen's findings are presented in the following tables.

TABLE 2.2 MEAN ACHIEVEMENT LEVEL SCORES BY ETHNICITY AND SOCIAL CLASS

Ethnicity	Social Class					N
	1-11	111	IV	V	\bar{x}	
French-Canadian	10.00	10.64	8.78	7.75	8.82	62
Italian	8.86	12.81	7.54	10.20	9.65	74
Greek	9.17	12.13	10.40	8.75	10.60	47
Jew	10.05	10.41	10.94	11.20	10.53	57
Negro	11.36	9.00	8.23	6.72	8.40	65
Protestant	11.71	10.94	9.39	7.31	10.11	122
\bar{x}	10.55	11.26	9.01	8.32		427
Ethnicity: $F = 1.23$ $p > .05$ Social Class: $F = 5.30$ $p < .005$ Ethnicity X Class: $F = 1.32$ $p > .05$						

Source: Rosen, 1959, p.52.

By combining Italian and French-Canadian scores, Rosen obtained a "Catholic" score. A "white" score was calculated by combining scores for all other non-Negro groups. The differences between these two "group" means were tested for significance and it was concluded that the "Catholic" mean score was significantly below the score for the "white" grouping ($p < .01$ by one-tailed t test). Rosen's value orientation data are shown in Table 2.3.

TABLE 2.3 MEAN VALUE ORIENTATION SCORES BY ETHNICITY AND SOCIAL CLASS

Ethnicity	Social Class					N
	I-II	III	IV	V	\bar{x}	
French-Canadian	4.00	4.21	4.60	2.46	3.68	62
Italian	5.36	4.00	3.96	3.40	4.17	74
Greek	6.33	5.52	4.80	3.25	5.08	47
Jew	5.94	5.47	5.41	4.80	5.54	57
Negro	6.00	5.00	4.90	4.67	5.03	65
Protestant	5.86	5.50	4.97	3.54	5.16	122
\bar{x}	5.91	5.08	4.78	3.49		427
Ethnicity: $F = 11.62$ $p < .001$ Social Class: $F = 33.80$ $p < .001$ Ethnicity X Class: $F = 2.43$ $p < .01$						

Source: Rosen, 1959, p.56.

Again, when Italian and French-Canadian scores were combined to obtain a "Catholic" score, the latter was found to be significantly lower ($p < .001$) than the scores for Greeks, Jews and Protestants. Rosen's data also indicated that 96% of the Jewish, 88% of the Protestant, 85% of the Greek, 83% of the Negro, 64% of the Italian and 56% of the French-Canadian mothers in the sample stated that they intended (rather than wished) to send their sons to college. Thus, Rosen's (1959) findings consistently indicate that Jews, Greeks and Protestants are more likely to possess

higher achievement motivation, achievement values and educational and vocational aspirations than (Italian and French-Canadian) Catholics.

McClelland (1961), in seeking to establish a link between achievement motivation and economic progress, observed that the level of n-Achievement is a function of early child rearing practices, particularly achievement training and independence expectations. Empirical studies have shown that achievement motivation is generated by at least two kinds of socialization practices. In achievement training, parents impose standards of excellence upon tasks, set high goals for their children, indicate high evaluation of their competence to do a task well and communicate to them that they expect evidence of high achievement. Usually associated with achievement training are strong parental expectations of independent behavior by their youngsters. In such independence training, parents indicate to their children that they expect them to be self-reliant, and allow them an appropriate measure of autonomy in decision-making situations where they are given both freedom of action and responsibility for the outcome. Rosen (1959) suggested a parallel with Weber's description of the idiosyncratic consequences of the Protestant Reformation:

Weber reasoned, first, concerning salvation, that an important aspect of the Protestant theological position was the shift from reliance on an institution (the Church) to a greater reliance upon self; it seemed reasonable to assume that Protestant parents who prepared their children for increased self-reliance in religious matters would also tend to stress the necessity for the child to be self-reliant in other aspects of his life. Secondly, Weber's description of the personality types produced by the Reformation is strikingly similar

to the picture of the person with high achievement motivation ... (*ibid.*, p.50)

McClelland (1961) accepted Weber's thesis as the societal equivalent of the relationship between n-Achievement and parental expectations at the personal and family level. The empirical studies of Winterbottom (1953, 1958), Rosen (1959) and others have provided a plausible micro-explanation of how and why the Protestant ethic had the impact on society that is the foundation of Weber's thesis. McClelland (1961, p.47) agreed that the Winterbottom studies suggested

a psychological means by which the historical development described by Weber may have come about. The Protestant Reformation might have led to earlier independence and mastery training, which led to greater n-Achievement, which in turn led to the rise of modern capitalism ...

and that

if the Protestant Reformation represented a shift toward self-reliance training and the new 'capitalistic spirit' an increased n-Achievement, then the relationship found by Winterbottom may have been duplicated at a societal level in the history of Western Europe.

McClelland further justified his support for Weber's thesis by noting the similarity between the new character type produced by the Reformation, as a more self-reliant and aggressive individual, and the features associated with high achievement motivation. McClelland indicated the connection between the Weberian and empirical studies in the following figure.