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## Entrepreneurial Development in the Western Contra Arabic Counties A Conceptual Analysis

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### BACKGROUND

According to Kuratko and Hodgetts (2001, p. 28), the word “entrepreneur” is derived from the French “entrepreneur”, meaning, “to undertake”. The “entrepreneur” is one who undertakes to organize, manage, and assume the risks of a business. Kuratko and Hodgetts (2001, p. 25) enlightened us to the fact that, the recognition of entrepreneurs dates back to eighteenth-century France when economist Richard Cantillon associated the “risk-bearing” activity in the economy with the “entrepreneur”. In England during the same period, the Industrial Revolution was evolving with the entrepreneur playing a visible role in risk taking and the transformation of resources. Referring to Kuratko and Hodgetts (2001, p. 29). Economists such as Richard Cantillon (1725), Jean Baptiste Say (1803), and Joseph Schumpeter (1934) wrote about entrepreneurship and its impact on economic development. Restricting the entrepreneurial activity to only innovations and technical improvements can be seriously misunderstanding (Kuratko and Hodgetts 2001, p. 33). Contemporary understanding of entrepreneurship covers more than just innovation. It requires a complete understanding of innovative behaviour in all forms. A theory of entrepreneurship is defined as a verifiable and logically coherent formulation of relationships, or underlying principles that either explain entrepreneurship, predict entrepreneurial activity or provide normative guidance.

Referring to Corely et al. (2002), variation across countries and industries in the rate of investment in the three types of capital (physical, R&D, and human) explains a significant amount of variation in productivity levels across EU and US industries. As the three researchers point out, one of the strengths of the US economy that has enabled it to maintain its competitive advantage is its ability to increase productivity in manufacturing while simultaneously increasing employment to the performance of high-tech industries. Ballot and Taymaz (1997) have analyzed the co-evolution of the performance of firms and of the economy in an evolutionary micro-to-macro model of Swedish economy. The model emphasizes the interactions between human (or competences) and technological changes at the firm level and their effects on aggregate growth, taking into account the micro-macro feedbacks. Ballot and Taymaz (1997) investigated the co-evolution of the performance of firms and of the aggregate economy in a complete micro-to-macro simulation model, placing special emphasis on the interactions between human capital and innovation.

The paper started by giving a short definition of an entrepreneur and general background review of the relationship between the entrepreneurial environment and economic growth. The second section handles economic view of entrepreneurship. The third section looked at entrepreneur and entrepreneurship. This followed by exposing the reader to the major lines in entrepreneurial. In the fourth, we looked specifically at the Arab region countries economic situation. We then introduced our new concept of the Entrepreneurial Re-cycling Model and used that for an analysis in relation to Arab countries. The work is concluded by drawing on recommended shifts in current policies.

## ECONOMIC VIEW OF ENTREPRENEURSHIP

### Macroeconomic View of Entrepreneurship

The interaction between the economic thinking and the entrepreneurial concept is very essential in understanding the differences in the economic status of the diverse societies. That relationship can function both at the macro – as well as the micro –level. One way to examine the entrepreneurial theories is with a “school of thought” approach that divides entrepreneurship into specific activities. These activities may be within a “macro” view or “micro” view, yet all address the conceptual nature of entrepreneurship (Kuratko and Hodgetts 2001, p. 34). The macro view of entrepreneurship presents a broad array of factors that relate to success or failure in contemporary entrepreneurial ventures. There are three schools of entrepreneurial thought represent a breakdown of the macro view: (1) the Environmental School of Thought. (2) the Financial/Capital School of Thought, and (3) the Displacement School of Thought (Kuratko and Hogetts 2001, p. 35).

The Environmental school of Thought deals with the external factors that affect a potential entrepreneurs’ life style. These can be either positive or negative forces in the molding of entrepreneurial desires (Kurratko and Hodgetts 2001, p. 35-36). Actually, this thinking can be related to the contingency theory of organization (see Scott, 2003, p. 96-97; Lawrence and Lorsch, 1967; Galbraith, 1973, 1977). The Financial/Capital School of Thought is based on capital-seeking process. The search for seed and growth capital is the entire focus of this entrepreneurial emphasis (Kurratko and Hodgetts 2001, p. 35-36). The Displacement School of Thought focuses on group phenomena. It holds that the group affects or eliminates certain factors that project the individual into an entrepreneurial venture. There are three major types of displacement which illustrate the Displacement School of Thought. They include: political displacement, cultural displacement and economic displacement (Kuratko and Hodgetts 2001, p. 35-36). In that sense, this school approaches the institutional theory of organizing which emphasize the role of the society and its organs to the functioning of an organization (see Scott, 2003, p. 119-120; Selznick, 1949; Meyer and Rowan, 1977; DiMaggio and Powell, 1983).

### Microeconomic View of Entrepreneurship

The micro view of entrepreneurship examines the factors that are specific to entrepreneurship and are part of the internal locus of control. The potential entrepreneur has the ability, or control, to direct or adjust the outcome of each major influence in this view. Unlike the macro approach, which focuses on events from the outside looking in, the micro approach concentrates on specifics from the inside looking out (Kuratko and Hodgetts 2001, p. 36-39). There are three schools which stress the microeconomic view. The Entrepreneurial Trait School of Thought is the most widely recognized. The entrepreneurial trait approach is grounded in the study of successful people who tend to exhibit similar characteristics that, if copied, would increase success opportunities for the emulators. The Venture Opportunity School of Thought focuses on the opportunity aspect. The third one is the Strategic Formulation School of Thought. The strategic formulation approach to entrepreneurial theory emphasized the planning process in successful venture development

### The Process Approach

The process approach emphasis the kind of dynamic forces acting within the frame work of entrepreneurial activities. Three of the more traditional process approaches are:” entrepreneurial events” approach proposed by William D. Bygrave. The second is an assessment process based on an entrepreneurial prospective developed by Robert C. Ronstadt. The third is the multidimensional process approach developed by William B. Gartner. This last approach weaves together the concepts of individual, environment, organization and process. The entrepreneurial events approach focuses on the process of entrepreneurial activity and includes factors such as: initiative, organization, administration, relative autonomy, risk taking and environment (Kuratko and Hodgetts 2001, p. 40). The process approach is an innovative way of thinking which been promoted in the way we can

understand the organizing process. The Actor-Network Theory (ANT) utilizes the process analysis dynamism to understand organizations (see Czarniawska and Hernes, 2005). This is even true when looking at bridging arrangements and networking structures.

## **THE ENTREPRENEURIAL AND ENTREPRENEURSHIP**

### **Earlier French Contributions**

There are some important French writers who contributed views on the role of the entrepreneur, the most important being Richard Cantillon and Jean Baptiste Say. Richard Cantillon was the first to recognize the crucial role of the entrepreneur in economic development, which was founded on individual property rights. Of the three classes in society recognized by Cantillon, entrepreneurs were the important class and were the central economic actors. The other two classes were landowners and workers or hirelings. That early realization of the relationship between economic growth and entrepreneurial activities helped the western society to manage the transition accompanied industrial revolution in a constructive and a successful way. The case was different for the Arab countries as we will see later.

Like Cantillon and Say also made the entrepreneur the pivot of the economy and a catalyst for economic change and development. The entrepreneur could be seen, by Cantillon and Say, as close to the traditional mainstream view of the entrepreneur as someone willing to take the risk of bringing different factors of production together. Referring to Deakins (1999, p. 10), both Cantillon and Say belonged to a French school of thought known as 'physiocrats', so called because the physical nature of the agrarian economy dominated their thinking.

### **The Austrian School**

#### *Background*

Some of the earlier better-developed solid thoughts about the 'entrepreneur' came from scholars within the 'Austrian School' of thought. The French School differs from the Austrian School in that the entrepreneur is seen as being crucial to economic development and a catalyst for dynamic change. The 'Austrian School' produced influential writers who underpin much of the current day theories of entrepreneur and hence much of modern day research into the characteristics (Deakins 1999, p. 10). This school encompasses profound classical theorists like I. M. Kirzner, F. M. Knight, and not least J. A. Schumpeter.

*Kirzner, I. M.* For Kirzner, the entrepreneur is someone who is alert to profitable opportunities for exchange. Recognizing the possibilities for exchange enables the entrepreneur to benefit by acting as a 'middleman' who facilitates the exchange. Deakins (1999, p. 11) saw the Kirznerian entrepreneur as a person who is alert to opportunities for trade. These possibilities for profitable exchange exist because of imperfect knowledge. The entrepreneur has some additional knowledge, which is not possessed by others, and this permits the entrepreneur to take advantage of profitable opportunities. In the Kirznerian concept of entrepreneurship, any one could possess the additional knowledge and be alert to opportunities for exchange and trade (Deakins 1999, p. 11). According to Kirzner, as pointed by Casson (2003, p. 219), alertness to disequilibrium is the distinguishing characteristic of the entrepreneur. Alertness enables some individuals to intervene in the market by changing the price while other individuals simply respond by changing their buying and selling plans in the light of the newly quoted price.

*Knight, F. M.* Referring to Deakins (1999, p. 12), the commonly held view of the entrepreneur as a calculated risk taker comes close to the view of Knight. Deakins (1999, p. 12) hinted that, for Knight the entrepreneur is an individual who is prepared to undertake risk and the reward –profit– is the return for bearing uncertainty. The entrepreneur is someone who is prepared to undertake risk in an uncertain world. Knight made an important distinction between risk and uncertainty. Risk exists when we have uncertain outcomes but those outcomes can be predicted with a certain degree of probability True uncertainty arises when the probability of outcomes cannot be calculated (Deakins

1999, p. 12). One of the characteristics of entrepreneurs (following Knight) could be considered to be the responsibility for one's own actions. If a manager assumes this, then he or she is performing some entrepreneurial functions.

*Schumpeter, J. A.* The Schumpeterian entrepreneur is an innovator. The entrepreneur brings about change through the introduction of new technological processes or products. For Kirzner, anyone has the potential to be an entrepreneur. Deakins (1999, p. 11) suggested that, although Schumpeter is a writer classified in the 'Austrian School', his views on the entrepreneurial functional are quite different from those of Kirzner. For Schumpeter, only certain extraordinary people have the ability to be entrepreneurs and they bring about extraordinary events do develops a new technology, whereas for Kirzner, the entrepreneur operates on opportunities that arise out of new technology. Although the entrepreneur is again an important catalyst for economic change, the entrepreneur is essentially temporary for Schumpeter. Schumpeter predicted the demise of the function of the entrepreneur as the technological program proceeded further. Then, Technological advance and change would be carried out by teams of workers and scientists operating in large organizations. For Schumpeter, large monopolistic firms have distinct advantages over small firms in the technological process. We are convinced that we argue that this analysis of Schumpeter has a weak point. Even when the larger firm has took over the role of the entrepreneur; you still need an innovative and entrepreneurial mentality to be able to solve problems. We argue that what happened is not what Schumpeter predicted. Rather the entrepreneur is turn into an internal actor within the large firm, rather than being the individual who starts a firm.

*Shackle, G. L. S.* As Deakins (1999, p. 14) pointed out, Shackle's entrepreneur is someone who is creative and imaginative. Whereas Kirzner's entrepreneur perceives opportunities, Shackle's imagines opportunities. Everyone potentially has this creative ability, which is exercised in making choices. The role of uncertainty and imperfect information is crucial for the view of the role of the entrepreneur by Shackle. Uncertainty gives rise to opportunities for certain individuals to imagine opportunities for profit. Shackle's entrepreneur is creative and original. Deakins (1999, p. 14) stated that, for Shackle, the act of imagination is important for identifying the potential of opportunities. This potential is compared to resources available, which can lead to the decision to produce, hence the act of entrepreneurship. Shackle's creative entrepreneur indicates that creativity is an important element in the entrepreneurship process. However, how this creative process occurs, and the factors, which might influence it, remain areas that are only just beginning to be explored (see Deakins, 1999, p. 14).

*Casson, M. C.* Casson recognizes that the entrepreneur will have different skills from others. These skills enable the entrepreneur to make judgments, to co-ordinate scarce resources. The entrepreneur makes judgmental decisions, which involve the reallocation or organization of resources. Casson's view is closer to that of Knight than other writers. The entrepreneur operates within a set of technological conditions; by making difficult judgmental decisions they are able to enjoy the reward of profit (for bearing uninsurable risk). This enables the entrepreneur to co-ordinate demand and supply under uncertainty (Deakins 1999, p. 14). Referring to Deakins (1999, p. 15), in Casson's view, the supply into specific entrepreneurial economy will depend on the propensity of any given set of circumstances and the extent to which potential entrepreneurs have access to resources In some sense, Casson's view is the most contingency dependent among entrepreneurial theorists.

## **THE ARAB WORLD AND THE ECONOMIC DEVELOPMENT**

It is a fact that the Arab has a different economic history than in the Western World. Until, actually the First World War, the whole region was dominated by a rural, semi-industrial structure with the smaller firms playing a larger role, together with trade and agriculture. The mean bush toward large scale industrialization started after the Second World War, although some countries like Egypt has an earlier attempts to assimilate the industrial revolution taking full potential at that time in

Europe. In choosing the economic model for their progress, the Arab countries took basically two paths. Some assimilate the socialist, state-controlled economy, like Egypt, Iraq, Algeria, and Syria. Others have chosen the more liberal free-market system like Jordan Lebanon, and the Gulf countries. However, due to the clear failure of the socialist experience and state-control models which started to be apparent through 1970s and 1980s, the tendency was to seek the solution in the liberal-free material processes.

Azzam (2002) argued that during the 1970s, several Arab countries followed socialist ideologies and common type economies that were in conflict with the free-market policies pursued elsewhere in the region. The socialist economic system, in its nature has a preference to larger corporations. Small firms in such economies are having a real tough fight to survive and grow: no wonder that the entrepreneurial sprits in such economies are usually suppressed. However, in Azzam's view (2002), this ideological conflict is no longer an issue with most Arab countries following now free-market policies and implement economic reform programs that call for a change in the role of the state from player to referee.

According to Azzam (2002, p. xi) "The Arab countries are going through a period of transition, from having economies in which public sectors have been the dominant players to ones in which the private sector is taking the lead." Azzam (2002) admits the difficulty of deciding on specific economical model to be used, among the existing ones, as each model has its strengths and weaknesses. Azzam (2002) argue on p. (xii) "Today, conditions in the world economy, with the free flow of goods and services across boundaries and fast-changing IT best suit American model. This model emphasizes flexible and competitive labour and product markets and the maximization of shareholder value", p (xii). We feel that this dangerous simplification. The free market concept, if not balance by a strong institutional input into the entrepreneurial arena, can lead actually to suffocation of smaller firms and hyper-capitalism. Actually, some writers have already noticed the clear negative impact of the elimination and destruction processes that the economic policies of governments in the region have caused. As Richards and Waterbury (1996, p. 13), noticed the process of economic growth and structural transformation, in the region, is typically characterized by a variety of distortions and unintended outcomes. Referring to Abouzeedan and Busler (2004), the optimal conditions of the entrepreneurial environment of the society require correct proportion of three components which form the Innovation Capital. These components include: Human Capital, Financial Capital, and System Capital (see Abouzeedan and Busler, 2004). Azzam (2002) himself pointed out on p. (xii). "Economic studies suggest that having in place the right ingredients for growth maybe even more important than picking the best economic model.

Azzam (2002, chapter (1)), suggests economic policies needed to attain growth and developments. These include reducing internal and external imbalances, liberalizing trade, accelerating privatization, putting in place an effective financial infrastructure and attracting foreign joint-venture investment. Azzam (2002), in the same chapter has suggested that there are other ingredients of economic growth and development that are particularly important to the region: changing the role of the state from a 'player' to 'referee'; establishing civil societies, empowering the private sector; forming a regional economic block; and developing the region's human resources. We do agree with most of these suggested economic polities, however, we have strong objection to some of the policies suggested. We believe that the Arab countries will do harm to itself if it allowed for large scale privatization and venture investment as these tends to accelerate the destruction and elimination mechanisms which is distributing the natural flow of the entrepreneurial cycle, (as it will be clarified in another section of the paper). These policies will increase the monstrous ration of the larger corporation and mega-size projects in respect to the seeds of potential enterprise growth that the region in more need of.

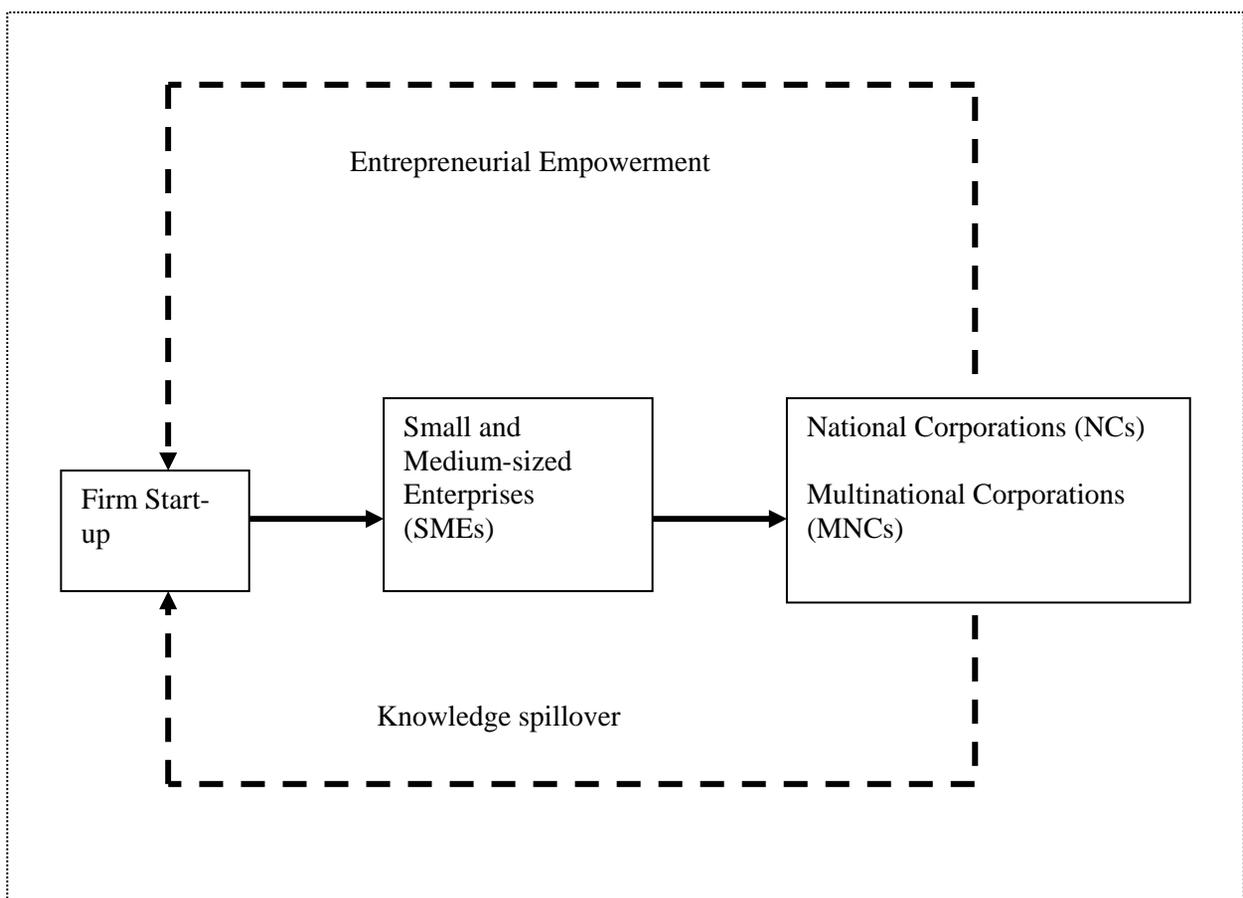
Azzam (2002, chapter 2), has looked at the challenges facing Arab countries due to globalization, especially in the second chapter. Abouzeedan (2003) had looked at firm performance and how the shifting from "Agglomeration" to "Dispersal" economy alters that (see Abouzeedan, 2003). Abouzeedan (2002) has argued that, actually, there is a sense of denial within the political and social

elite of these societies to the ability of local elements of socio-political nature to promote better conditions of economic growth. This is even more apparent when looking at how the entrepreneurial capacities of small and medium-sized enterprises (SMEs) in these countries were suppressed in favour of large-scale projects. This is in contrast to the gradual entrepreneurial transformation of the western economies, which nourished the small firms and helped them to grow into larger enterprises.

### THE ENTREPRENEURIAL RE-CYCLING MODEL

In the industrial western countries the economic transformation from the rural, un-industrial society to the industrialized society proceeded smoothly. The older smaller firms were not eliminated rather they were developed through slow process of incubation. Technical motivations were introduced gradually. Car industry, for example started in small experimental workshops and as the production techniques developed they grew larger in size. Management techniques also proceeded from the scientific management or efficiency of Taylor (see Taylor, 1911), the effective-oriented Management (see Drucker, 1943), and Competitive Advantage of Porter, 1980). This process of this gradual transformation in the in the west is behind the prosperity of these nations. The cyclic nature of the entrepreneurial activities is shown in Figure 1.

**Figure 1** The Entrepreneurial Re-cycling Model



There are two important processes of significance: *entrepreneurial empowerment* and *knowledge spillover* embedded in the Entrepreneurial Re-cycling Model. We defined the “*entrepreneurial empowerment*” as: “*The processes by which the larger corporations, both National Corporations (NCs) and Multinational Corporations (MNCs) are promoting, assisting, and allocating resources leading to a healthy entrepreneurial environment.*” The other feedback process exposed in the Entrepreneurial Re-cycling Model is the “*Knowledge spillover*”. The process is well-known in the economic literature and it refers to the knowledge generated and transferred to the environment due to the activities of existing enterprises. The larger the firm is the higher probability of more intensive knowledge and information transformation to the environment. If we analyzed the way the western economic developed on the light of the Entrepreneurial Re-cycling Model, we find that the smaller firms are the ones who started the economic revolution during the period which followed the enlightenment age in Europe. These enterprises are the ones which were flourishing at the beginning of the industrial revolution. These firms progressed in their expansion to be larger cooperation through long-process under more stable conditions. As these firms continued in growing, the two processes of *entrepreneurial empowerment* and *knowledge spillover* were taking place and in parallel.

In the Arab world, the experience was different. In all Arab countries, both the ones who applied the socialist economic system and the ones who followed the liberal market-oriented capitalistic system, the elimination and destruction processes of the old seeds of the smaller firms which were exiting in these countries proceeded with eagerness and sometime to the extreme. In the smaller gulf region countries, every other form of the entrepreneurial activities was swept away to the favour of the oil industry. Although these firms were in the micro scale range of small and medium-sized enterprises (SMEs), they could have been fed and nourished, in parallel with the development of the oil sector. That would have resulted in a core of SMEs. Even, the non-oil producing Arab countries embraced during the 1950’s and 1960’s, and even late the 1970’s their own elimination process. They suppressed any activities of smaller scale in important sectors like agriculture, industry, fishing ... etc. All the activities were gathering under the inefficient governmental management control. That was evidence in countries like Egypt, Syria, Algeria, and Iraq.

The rapid uncontrolled processes of the application of these economic policies lead to a breakdown in the Entrepreneurial Re-cycling Model. This terminated the most two important processes, that is the “*entrepreneurial empowerment*” and “*knowledge spillover*”. The “*entrepreneurial empowerment*” was eliminated between the receivers at one end of the cycle (i.e. the smaller firms) and the larger corporation (see Figure 1). The “*knowledge spillover*” processes were also prohibited, because the receiver, again the micro and smaller firms were subjected to suffocation in a brutal way.

## **CONCLUDING REMARKS**

In this paper, we looked at the way the entrepreneurial environment in the western countries has developed in comparison to the Arab countries. We used a new analysis tool, the “*Entrepreneurial Re-Cycling Model*” to understand the different path the two regions went through. We concluded that the economic policies of Arab countries have lead to suppression of the possibility for the small firms in the region to grow. The two important processes of “*entrepreneurial empowerment*” and “*knowledge spillover*” were eliminated. To re-activates the entrepreneurial cycle, we recommend the responsible authorities in the region to invest heavily in projects aiming at re-discovering the local skills and entrepreneurial storage of heritage and converting these into new micro enterprises or smaller firms. In parallel to that, real ambitious investments should be directed to promote and support the existing smaller enterprises within the whole range of economic activities. Mega-size projects are important, but alone they cannot build, on the long run, a strong solid and a flourishing economy.

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