



## RURAL ENTREPRENEURSHIP: INDIVIDUAL OR COLLECTIVE PHENOMENA?\*

*Anabela Dinis*

Núcleo de Estudos em Ciências Empresariais. Departamento de Gestão e Economia – Universidade da Beira Interior

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### Abstract

The creation of firms is often mentioned as an effective strategy for revitalising rural areas and to attain a sustainable development. However, in these areas, entrepreneurship is particularly difficult since firms face greater limitations concerning human, material and financial resources when compared with urban and more developed areas. In literature, the entrepreneur is usually pointed out as being as a key element in the creation and development of firms, but the importance of the socio-cultural context in entrepreneurship promotion is also being more and more recognised. In fact, several studies show that (1) successful economies are supported and governed by strong social institutions of a non-market character, (2) often what holds firms is the existence of a supportive socio-economic structure characterised by specific social and cultural vestiges.

This study intends to highlight that entrepreneurial process has to be seen and analysed as both an individual and collective phenomena where economic rationality is mixed with other (ir)rationalities. It also means that economic development is more probable and sustainable in a context of socio-cultural development.

**Key words:** Entrepreneurship, Rural, Networks

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### 1. INTRODUCTION

Entrepreneurship and small firms are often pointed as *sine qua non* condition for an healthy economy and a sustainable development (e.g. Birch 1979, Storey 1982, Goss 1991) Thus, the promotion of entrepreneurship is usually indicated as a viable strategy for revitalisation of rural areas (Boldizzoni 1987, Altenburg

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1997, Adgbite 1997, Boocock and Shaufft 1996). However, entrepreneurship seems particularly difficult in these areas which present larger limitations concerning human, material and financial resources compared to urban areas. This fact is quite evident in Portuguese rural areas which present a higher level of illiteracy, a trend towards desertification and to population becoming older, a higher number of dependent people, the lack of support services for firms and citizens, among other limitations. In these conditions it is quite intriguing how entrepreneurship happens. The explanation seems obvious: if the context is not supportive and, despite this, firms are founded and grow, it is due to the commitment and exceptional qualities of individuals, who are able to overcome these limitations and go ahead with their ventures. They are true entrepreneurs, who against all odds, are capable of launching their firms. This perspective emphasises the role of the entrepreneur and sees the entrepreneurial process as an individual phenomena.

However, there is a growing body of literature which describes rural and less developed regions which, thanks to a collective effort of mobilisation, were able to invert their situation and begin a process of economic development. It is the case, for instance, of literature about industrial districts (Becattini 1989, 1994, 1999, Pyke and Sengenberger 1992, Goodman et al 1989, Benko e Lipietz 1994, Reis 1988 among others). These works emphasise the collective character of entrepreneurship.

Individual vs. collective are two perspectives which have been developed in literature as separate and almost incompatible. Both seem to have strong arguments to vindicate the "truth". However, will one perspective be better than the other? Or, will one make no sense without the other?

This paper intends to highlight the inseparability of the two concepts, changing the focus from individuals or collective structures to relationships between individuals. In this way, the border between individual and collective disappears and both remain as "two faces of the same coin".

We will begin by approaching the subject of the entrepreneur as an individual who creates and manages a firm. Then we will focus on aspects concerning the context and collective features present in literature about entrepreneurship. We will follow with the argument that both perspectives are necessary to understand entrepreneurship, particularly in rural contexts. This argument is developed through a relational view, using network theory. Finally further research is indicated.

## **2. THE ENTREPRENEUR**

Entrepreneurship is often seen as an intrepid project of an individual – the entrepreneur. The importance of the entrepreneur is evident in the amount of research about his person. The concern about the entrepreneur is already present

in the work of some economists as Cantillon (1755) Say (1849), Cole (1959) Shumpeter (1912), Kirzner (1973) among others. Besides his function as founder and manager of businesses these studies also reveal some of his personal characteristics, namely propensity towards innovation, alertness, capability to assume risk and need of internal locus of control

In fact the word “entrepreneur”, refers not only to the individual who creates and manages a firm on his own, but often also to someone who reveals initiative, commitment, determination, audaciousness and courage: someone who decides to do something important and does it facing all the obstacles.

These studies try to answer the question “why” some individuals begin a business and/or succeed, while others, in similar conditions, do not. This question progressively became one of “who”: Who are those individuals and what characteristics differentiate them from others? The search for the answer originates the so called *trait approach* (e.g. Dunkelberg and Cooper 1982, Khan 1986, Carland et al 1988, Hoy 1987, Wislow and Solomon 1989, Chell et al 1991, Chell and Haworth 1993, Birley and Westhead 1994, Hankinson et al 1997) which focuses on the entrepreneur’s demographic characteristics (Sex, age, familiar situation, etc), familiar and professional backgrounds, education, qualifications, values, attitudes and motivations.

Some researchers have adopted a somewhat different approach, focusing on the role of the cognitive process in entrepreneurship. This perspective assumes that what and how we think has a significative impact on attitudes and on the intention of starting a business (p.e Busenitz and Lau 1996, Huuskonen 1993, Palich and Bagby 1995). It explores individual perception and the way it evolves and affects behaviours and attitudes. A small but growing body of research seems to draw the conclusion that entrepreneurs differ from other people in some cognitive aspects. For example, Palich and Bagby (1995) compares the results of the cognitive process of entrepreneurs and non-entrepreneurs and concludes that, contrary to what is usually accepted, entrepreneurs do not have a bigger propensity to risk. They differ, in fact, in the way they think about business situations: they tend to see each situation as having more strengths, opportunities and potential gains than non-entrepreneurs. It means that they are more optimists. This is a result of their tendency to adopt an “inside” vision – centered on the current situation and reflecting their personal involvement – instead of adopting an “external” vision – which compares the current situation, in a “cold” and rational way, with the results of the previous relevant situations (Kahnemam and Lovallo 1994, mentioned in Baron 1998). Baron (1998) explores potential sources of error and bias in the entrepreneur’s cognitive mechanisms and concludes that entrepreneurs usually work under situations characterised by high levels of uncertainty, novelty, emotion and time pressure, which tend to eliminate and overcome their capacity to process information and consequently to increase their susceptibility to a certain cognitive bias and errors

Thus, research on human cognition suggests that the entrepreneur's cognitive process (as in every person) is far from being completely rational. In this sense several authors (Sjöstrand 1992,1997, Sjöstrand 1998, Johannisson 1998) argue that in the real entrepreneur, economic rationalities are mixed with other (ir)rationalities: emotive, affect and moral - which imply mutual commitment, trust, personal empathy and fun.

### 3. THE CONTEXT

To explain entrepreneurship, researchers often make reference to contingencies or context. Even in some studies in the trait and cognitive theories, the importance of environmental factors is recognised. The fact is that some characteristics studied in that approaches, correspond to socio-cultural aspects, as, for instance, religion, country of origin, ethnicity, social class, economical and social backgrounds, social involvement, education, family, life style, etc. Also, concerning motivation, it is possible to distinguish between pull and push factors. The latter refers to external or environmental factors that compels individuals to start a business, Busenitz and Lau (1996) explicitly include social and cultural factors in their entrepreneurial cognitive model.

The influence of social factors is also considered in Ket's de Vries (1977) psychodynamic theory, which explores the social and psychodynamic forces that affect entrepreneurship. This author proposes a conception of entrepreneurial personality according to a model that he calls "reactive". According to this model, the individual "reacts" against initial demands imposed by his family and direct environment. Personality is developed in a psychodynamic sense – it is formed by a defence reaction. In this sense, starting and maintaining a business is an important symbol of prestige and power and a way to support an insecure feeling of self-esteem.

Besides that, several typologies include not only entrepreneur's traits but also organisational and socio-cultural characteristics (e.g. White and Reynolds 1993, Mieltienenn and Hedberg 1993). Gibb e Ritchie (1982) developed an entrepreneurial typology based on the social backgrounds and social influences along the entrepreneur's life. Gibb (1993) calls attention to the fact that it is useless to establish typologies or entrepreneur's descriptions unless we use an approach that is not only focused on the entrepreneur's characteristics (social, psychological and economical) but also on his behaviours, together with a contingential approach. As this author states: "*Different types of entrepreneurial behaviour are required in different market-places to achieve growth: and different traits, capabilities, skills and competencies will be needed depending on levels of uncertainty and complexity in the environment*" (p.16). In the same line,

Miettinen and Hedberg (1993) defends the use of the contingency theory in the study of the entrepreneur, because the most effective personality and behaviour is dependent on environmental and organisational circumstances. Accordingly, they study the fit between individual and environment. Other applications and developments of this theory are present in cross-cultural studies.

By influence of contingency theory (Lawrence and Lorsch 1967), but also of other theoretical approaches such as ecology theory (Hannan and Freeman 1977 Nelson and Winter 1982) or institutionalist theories (Ayres 1951, Commons 1931) there is an increasing recognition that firms exist in a complex system where interactions affect their creation and development.

In the line of industrial economics some studies focused on industrial structure highlighting the interactions between, and among, the several sectors of economy (e.g. Porter 1980).

Over the last years another line of research has been increasing in importance. It includes socio-cultural factors in the analysis of the environment and its relation with entrepreneurship. The importance of these factors in the entrepreneurial process is the main focus of industrial district studies (Maillat 1998, Becattini 1989, 1999, Garofoli, 1994, Goodman et al 1991). Along the same line Young (1971, p141) recognises the entrepreneurial phenomena as a phenomena of collective actions from “ethnic communities, occupational groups or politically oriented factions” These groups are mutually reinforcing and obtain their solidarity from their shared vision of the world. These studies are based on the assumption that what holds a firm alive is the existence of a socio-economical structure characterised by specific social and cultural traits, and shows that successful firms and economies are supported, and governed, by strong institutions of non-economic character (Streeck 1992, Putnam et al 1993). This means that economic rationality is mixed with other (ir)rationalities (Sjöstrand 1992, 1997). Thus, the complex character of entrepreneurship is recognised, where both economic action and inherent social “institutions” (cf. Sjöstrand 1992) work together. Also, the idea that economic development is more likely in a context of socio-cultural development (Polanyi 1944; 1957, Granovetter 1993, DiMaggio and Zukin 1990, Sjöstrand 1998) gains prominence.

#### **4. INDIVIDUAL AND COLLECTIVE: THE FOCUS ON RELATIONSHIPS**

As Gartner (1993) states, the words used to talk about entrepreneurship are critical for theory development because words invoke images, mental frames of reference and analysis and, in this way, limit the aspects that we are able/willing to consider in theory. So, let's see the meaning of individual and collective (table 1).

TABLE 1

Meaning of the terms “individual” and “collective”

<u>Individual</u>	“single separate”, “characteristics of a particular person or thing”, “a single human being as distinct from a group, class or family”, “a distinctive or original person”
<u>Collective</u>	“done by people acting as a group”; “belonging or relating to all members of a group”; (especially of feeling or memories) common to members of a group”; “taken as a whole”

Source: *New Oxford Dictionary of English*

From what has been said before, it seems quite obvious that the entrepreneur is fundamental in the entrepreneurial process, but also that he can not be isolated from the collective where he is inserted. In fact, successful entrepreneurs can have unique or special qualities but the way they emerge, become active or used, are inevitably related with the context. Either way, collective values are important determinants in the decision and, thus, all individual processes have to be seen both as an individual and collective phenomena, i.e. as individuals interacting in a social system (Johannisson 1998). “Individual” and “collective” notions, apparently opposing each other, appear as indissociable, as “two faces of the same coin” (cf. Johannisson and Senneseth 1993)

The interaction between individuals in a social system is the focus of network theory. According to this theory, in order to create and develop his business, the entrepreneur creates personal networks which combine social and economic concerns. The “social” or collective aspect is revealed in human feelings that only make sense in relation to “the other”, like trust, empathy, etc. Johannisson (1987,1990,1995) defines the entrepreneurial activity as a “personalised economic activity” to highlight that values and feelings affect the “why” and “how” they create and develop their firms, by interacting with the others. In this sense, this and other researchers make reference to “social exchange networks” (Johannisson 1995).

Some researchers have shown that the social networks of an individual are important for entrepreneurial behaviour because they give the information necessary to explore market discrepancies (e.g. Butler 1991). The information needed to start a business is passed to the entrepreneur through an existing social network of friends and acquaintances (Birley 1985, Johannisson 1986, 1987, Johannisson and Nilsson 1989). Thus, there is a higher probability of individuals centrally located in well developed social networks being aware of the business opportunities available, than those who are not or who are in undeveloped social networks.

Social networks act, not only as a support to initial entrepreneurial activity, but also as sources of information about improvements in the operational effectiveness and about further business opportunities. Since part of the

entrepreneurial return depends on a successful implementation it is important to learn by others' experience, the best way to respond to problems (Young 1971). Networks not only permit access to this source of learning but also to business information, technical advice and human, physical and financial resources. In this sense, personal capabilities and the internal resources of his firm are supplemented by his local and global network colleagues, which form his total egocentric network (Johannisson 1986). Internal resources and network resources, together, define the capability of change of the business, which is crucial in a turbulent environment

Interorganisational relationships usually happen because entrepreneurs in a given region see their colleagues as allies instead of competitors. Groups of entrepreneurs can even form alliances against groups of entrepreneurs in other regions (Butler et al 1990). In some cases these alliances can be conscious but in many cases they are the result of a competitive process without a deliberate or concerted action from individual entrepreneurs. In some cases governments assume formal steps to facilitate this process establishing industrial commissions or using formal mechanisms such as the concept of "technopolis" in which, firms are encouraged to establish themselves in a specific location (Querre 1989). However, most interorganisational alliances develop in a gradual and ad-hoc way (Ring and Van de Ven 1994). Italian industrial districts are an example of interorganisational co-operation between entrepreneurs with close relationships in the social, political and economic dimensions (Goodman et al 1989, Pyke and Sengenberger 1992). The intensity of a central network in a given region is, for this reason increasingly pointed out as being the factor that enables a region to develop its entrepreneurial dynamism and to develop its competitiveness in the broader national and international markets (Brown and Buttler 1993, Kalantadiris 1997). The success of specialised industrial districts in Italy and other places also shows the ability of the critical mass of local entrepreneurs to compete in international markets.

The network approach also makes sense in a subjectivist perspective (cf. Burrell and Morgan 1979). Subjectivists see "reality" as socially constructed<sup>1</sup> (c.f. Berger and Luckman 1966, Guba and Lincoln 1994, Cooperrider et al 1995, Cranach 1995, Dachler and Hosking 1995) by way of interaction with others. The image of "organising" as a pattern of interactions (Weick 1976, 1979, 1995) is adopted and it is assumed that the comprehension of socio-economic phenomena in general, and entrepreneurship in particular, is improved if the focus of research are the relationships, instead of the properties of each individual actor. (Johannisson 1995). Considering (social) reality subjective and socially constructed means assuming that different perceptions of reality exist. And the fact that different

<sup>1</sup> Constructivism considers that (social) realities are apprehensible in the form of multiple and intangible mental constructions, social and experimentally based, with a specific and local nature (even if its elements are often shared by several individuals and even cultures).

perceptions exist means that reality is ambiguous. While most people are attracted by collective, which are taken-for-granted, perceptions, entrepreneurs have divergent perceptions which constitute their own vision and which they pursue with conviction. To realise their own vision they must be able to identify the aspects of the collective vision that might lead to the envisioned reality. In this sense, the entrepreneur acts as a “manager of ambiguity” (Johannisson 1992), capable of destroying the established “order/reality” and of building his own “reality” This also means that the entrepreneur must be able to influence and convince others about the validity and coherence of his own vision.

The need to influence groups and organisations related to his business is translated in a behaviour directed towards increasing his personal and professional status and to developing the access to key decision makers in other organisations. Referring to innovative entrepreneurs Ramachandran and Ramnarayan (1993) concluded that, often, these types of entrepreneurs assume leadership in matters concerning the community or the industry where they belong. This social leadership helps to call attention and to obtain a positive image and a favourable support for their businesses. Success in business, in turn, helps to improve their status and to attain social objectives. As leaders they are able to legitimatise their actions and to impose their visions. At the same time, social and personal recognition improve their self-confidence and their will to act.

In fact, Johannisson (1987:5) found out that [successful] entrepreneurs run their business by getting personally involved in a multitude of [other] short term activities, because this is the only way of keeping the readiness and willingness of their personal networks and the access to critical resources for their businesses. This personal involvement and the interwoven roles between private and professional life imply that entrepreneur’s considerations as a member of an entrepreneurial community intersect with other considerations from other behavioural spheres (Johannisson 1987).

In summary, personal networks are often presented as fundamental in the entrepreneurial process for several reasons:

- Because they facilitate the access to several resources (material, financial and human)
- Because they are a source of information and learning (models)
- Because they are a source of new opportunities and potentially generate new ideas and projects
- Because they allow the entrepreneur to integrate professional and social life releasing energies that can be used to undertake more actions
- Because they are a vehicle of influence in the socio-political environment allowing the entrepreneur both to manage his independence and to legitimate his actions;



- Because they allow the building and maintaining of the entrepreneur's self confidence and will-power promoting action.

But even if these are all potential functions of the personal network, the truth is that it does not always work like that. In fact, some researchers state that in some circumstances social networks can act as "straight jackets" in the sense that they do not favour entrepreneurial values and attitudes (Ozcan 1995, Johannisson 1986, Johannisson 1987) and they don't have the variety required to produce opportunities and to favour "disjunctive imitation" (Johannisson 1986). Besides that, several research seems to prove that personal networks are effective only after reaching a "critical mass" (Monstead 1991, Johannisson 1986).

## 5. INDIVIDUAL AND COLLECTIVE IN RURAL AREAS

Rural areas are characterised by traditional societies and are usually economically less-developed. There is a strong feeling of community and, thus, strong social ties. In a subjective perspective these characteristics correspond to realities deeply "objectified" or institutionalised which strongly resist change. This is what the entrepreneur has to face. In these contexts the entrepreneur is always an innovator, since there is no entrepreneurial tradition, and starting a business represents an act of courage and audacity.

Due to the weak populational and business density in rural areas, social networks have little diversification and interorganizational ties are few or non-existent. This situation means that local networks don't have the capability of supporting entrepreneurial behaviour.

Although entrepreneurs in these regions may be involved in local networks, these will be more useful as social instruments than for business aspects. Even if a network in a rural area oriented toward business aspects exists, it is probably more oriented towards agricultural opportunities than to entrepreneurial aspects. However, since population decrease and technological advances reduces the need for agricultural work, economic diversity becomes more and more necessary. Formal education can allow some access to information about available paths to entrepreneurial success but it doesn't give a infrastructure that can replace the social and interorganizational networks like those existent in more developed regions.

A less-developed local network makes more important the access to networks located in other regions or countries. Rural entrepreneurs need access to networks of individuals living in areas that generate a larger number and variety of businesses. Entrepreneurs living in more developed areas participate in networks formed by individuals able to understand entrepreneurial opportunities and willing to communicate this information in a social context. Under these circumstances the

rural entrepreneur could also expect to be able to build an inter-organisational network which would improve his chances of success. The activation of a personal network potentiality passes, in these cases, for the inclusion in a global network (transregional or transnational).

Research about entrepreneurial process confirms that entrepreneurs build their global networks around client/supplier relationships (e.g. Kalantaridis 1997). However global networks can also include connections with authorities, business lobbies and organisations outside the market. This is especially important in less-developed areas since regional and industrial policies supply important financial resources and professional advice in a complex support system. In fact, Johannisson (1987) states that a small firm's network in less-developed areas involves several institutions. These networks are both denser and more personalised than in prosperous regions.

When there is no appropriate local network and transnational/transregional substitutes have to be found, more difficulties arise: physical or psychological borders can act retarding or reducing the effectiveness of such substitutes. Although technological developments allow an improvement of information transfer between regions and countries, there are other factors (political, sociological cultural and economic) that constrain the free flow of information and the access to social and technical interorganizational networks (Brown e Butler 1993). The strong ties present in networks already developed in other contexts act as a barrier for entrepreneurs which are not members of that group (Young 1971:141). For that reason when an entrepreneur has to depend on transnational and transregional networks (instead of local networks) it decreases the probability of his both starting a business and succeeding (Brown and Butler 1993).

We saw in the previous point that a way of developing the access to organisative networks (i.e. the access to key decision makers in other organisations, and in this case also in other regions) is to assume leadership in matters concerning industry or community where the entrepreneur belongs. In the case of rural entrepreneurs this leadership has to concern local community issues, given that entrepreneurs from more developed regions are better positioned to lead the industry. This social leadership will contribute towards calling attention to and developing a positive image and to getting a favourable support, not only from governmental organisations, but also from his fellow entrepreneurs in other social and spatial settings.

On the other hand, as a community leader, the entrepreneur is able to legitimate his actions and to impose his visions in the local community. This fusion of roles between professional and social life means that, often, the rural entrepreneur is also a "community entrepreneur" (Johannisson and Nilsson 1989, Johannisson 1990), or what amounts to the same, an agent of local development. In this sense, the field of action of the rural entrepreneur is not only the market but also the socio-political environment. Local recognition, and also his acceptance in the

global networks, increase his self-esteem, usually less developed in rural individuals when confronted with urban culture. In fact, the vision of rural regions as peripheral, resulting from their secondary position in the economic industrial world, often constitutes a psychological barrier for its populations and, thus, for their (potential) entrepreneurs.

The logic presented in this paper suggests that transnational/transregional networks can serve as substitutes when local networks are not available or as supplement of local networks. Furthermore, it indicates that local and global ties can/should be managed together. This also means that it is important for entrepreneurs in rural and less developed regions, to establish and maintain transnational/transregional contacts at the same time that they build their local network. A local interorganizational network can only be effective after a sufficient number of firms operate in that region. Once effective local networks are established, the process of development will be much easier and the creation and success of firms more likely, since entrepreneurs and their firms are no longer constrained by physical and psychological borders.

## **6. CONCLUSIONS AND FURTHER RESEARCH**

The considerations made in this work suggest that social (collective) and business (individual) objectives are a whole that can't be considered apart from each other. In the same way, economic development evolves side by side with social development in a complementary and mutually-reinforcing dynamic. Networks constitute a privileged vehicle for the realisation of both objectives. For that reason, in rural areas, effective steps must be taken to make entrepreneurs and potential entrepreneurs aware of the importance of such networks and to promote their creation and maintenance. This has implications in terms of public and regional policies

Until some years ago, macro-environmental conditions were seen as acting as constraints or facilitators of entrepreneurial behaviour in less-developed countries/regions. These regions were advised to invest in capital infrastructures. For that reason for many years public policy was directed to the construction of a material infrastructure that could support entrepreneurial initiatives and to the promotion of commercial relationships, through governmental support such as financial incentives, tax relief, direct subsidies for chosen firms or industries, etc. But the success of some economies based on small firms that naturally emerged calls attention to the importance of networks and to the fact that what small firms need is an information network that supplements their advantages of being small, namely their flexibility and ability to respond quickly. It seems clear now that, as Pyke and Senberger (1990: 4) state: "the key problem for small firms appears not to be that

of being small, but of being isolated". Governmental support should, for this reason, be directed not (or not mainly) to the individual entrepreneur but to the creation of network structures which promote the organisational context of entrepreneurship and reduce the impact of borders.

In terms of development this means that if a small village or a rural region is to be revitalised through the creation of small businesses, the construction of local and global networks must also occur. Furthermore the probability of success of such strategy of change will be improved if collective will and the ability to create a sustainable community are epitomised by a person who can personally promote entrepreneurship through network activities.

Empirical research must be developed in order to give more validity to the theoretical statements presented here. How are local and global networks jointly-managed in rural and less-developed regions ? Is it possible to create and develop a firm in rural areas without local support? Up to what point are public policies directed towards a collective are more effective than those directed towards individuals? These and other questions need to be answered on the basis of empirical data and developed in further research.

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