

# **Research on Entrepreneurship Development in Germany: What are the Lessons for Developing Countries?**

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## 1 Introduction

German entrepreneurship research can be understood in different ways. Entrepreneurship can be another name for the management of start-ups respectively ventures. On the other hand entrepreneurship can also mean entrepreneurial behavior and the execution of entrepreneurial functions within the firm. By analyzing the two different interpretations, it turns out that the research streams in Germany completely differ.

In case of venture management there is, in fact, no long research tradition. Unlike the US-American research, which started very early with first academic contributions in the year 1947, in Germany the first entrepreneurship chairs in the area of business studies and economics were founded in the year 1998 (Koch 2003a; Koch 2003b; Klandt et al. 2005). Although even before 1998 there have been some academic contributions in the field of venture management written by German academicians (see Fallgatter 2002 for an overview), one can say that the contributions are still thin on the ground. Accordingly, if there are some advices for developing countries to be given based upon German entrepreneurship research, it makes sense to look a little bit deeper into the contributions dealing with entrepreneurial behavior and entrepreneurial functions.

By doing so, the so-called “Unternehmertum” research offers indeed a rich and meaningful tradition – in particular by extending the view to the German-speaking countries which makes sense due to several interdependencies. One can say that there is a considerable gap between the research in the United States on the one hand side and the German speaking countries on the other. More than that the US-American research was predominantly pushed by researchers of German speaking countries, such as Schumpeter, Kirzner and von Hayek. Most recently, the influence of these named researchers on Anglo-American contributions seems to be increasing. Keeping these developments in mind, it makes sense to address the open question about relevant implications of German entrepreneurship research in the above mentioned sense as to fix problems of developing countries in Africa. This contribution is dedicated to scrutinize this question which goes along with reviewing German (-speaking) entrepreneurship research in history.

## 2 Overview of “German” Entrepreneurship Research

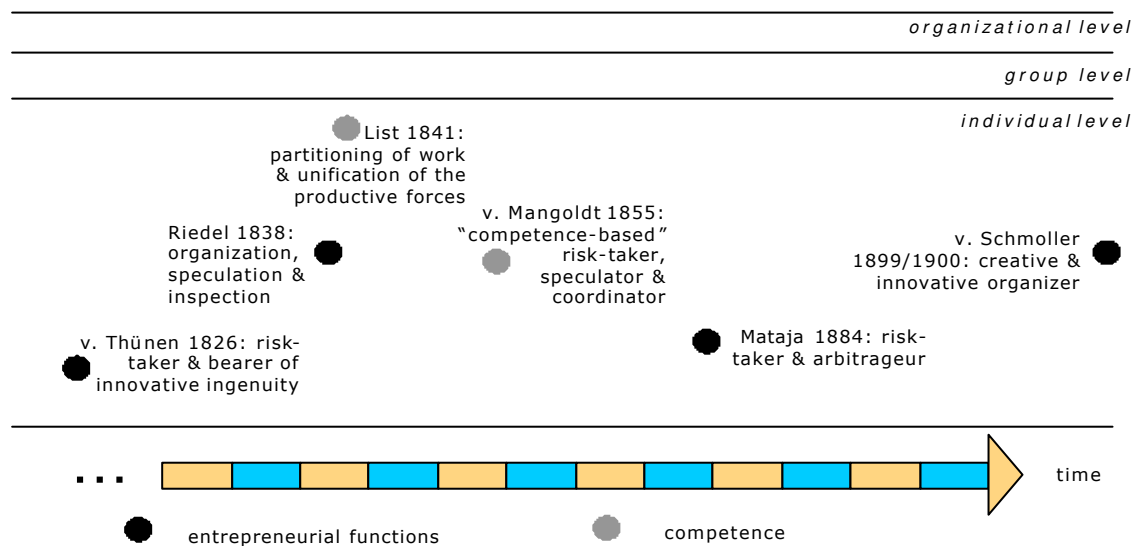
German entrepreneurship research is pervasively characterized by spanning boundaries between the microeconomic and the macroeconomic level. Regarding the very beginnings of German entrepreneurial research, the philosophical impact of ancient Greece is clearly recognizable. When philosophers such as Hesoid (700 B.C.), Xenophon (394 B.C.), and Aristoteles (340 B.C.) address the art of householding (Schneider 2001), there are besides some ethical considerations some important cornerstones of entrepreneurial activities to be recognized. Those frame-giving elements are:

- freedom of economic decision-making,
- scarce resources,
- rationality respectively reasonable decision-making,
- income seeking behavior (by respecting ethical values),
- managing the cooperation of people belonging to the same economic unit.

In this context Hesiod contributed that householding is to be regarded as an ethical obligation, whereas Xenophon in his famous “Cyropaedia” touched upon the principles regarding the division of work and to make use of specialization. Aristoteles himself addressed the rationality of planning and decision-making.

All these considerations are important roots for German entrepreneurship research. In particular, they represented an input for the discussion about the question: “What ought to be done in order to create and maintain a business?” Encouraged by the seminal work of Cantillon (1755) and Smith (1775), German entrepreneurial research started with some early contribution in the first part of the 19<sup>th</sup> century. It is up to the next three figures to make up a historama of German entrepreneurship research.

Figure 1: A Historama of German Entrepreneurship Research – The 19<sup>th</sup> Century



It is obvious that in early contributions German entrepreneurship research started at the individual level. This means that the behavior of the entrepreneur as a single person (the so-called “Unternehmer”) is regarded. In other words, the entrepreneurial interplay in groups respectively organizations did not play any crucial role in the respective contributions of the 19<sup>th</sup> century. Johann Heinrich von Thünen (1826) was one of the first protagonists who claimed that entrepreneurial activity consists primarily of taking risks. Any source of profit can only be exploited if the entrepreneur is willing to take economic risk. Accordingly, the income of economic actors can be regarded as an equivalent for risk taking activities. Thünen points out that it is impossible to act as a merchant without taking any risk. At least some risks will remain which cannot be insured in any way. This insight is an important impetus for management, even in developing countries. Any entrepreneur is forced to recognize the potential risks, to calculate them and to make adjustments by an alert risk management. Adolf Riedel (1838) argues in a similar manner. He regards risks as the root of any kind of superior profit. Going beyond the insights of von Thünen, Riedel points out that walking the road to superior profits goes



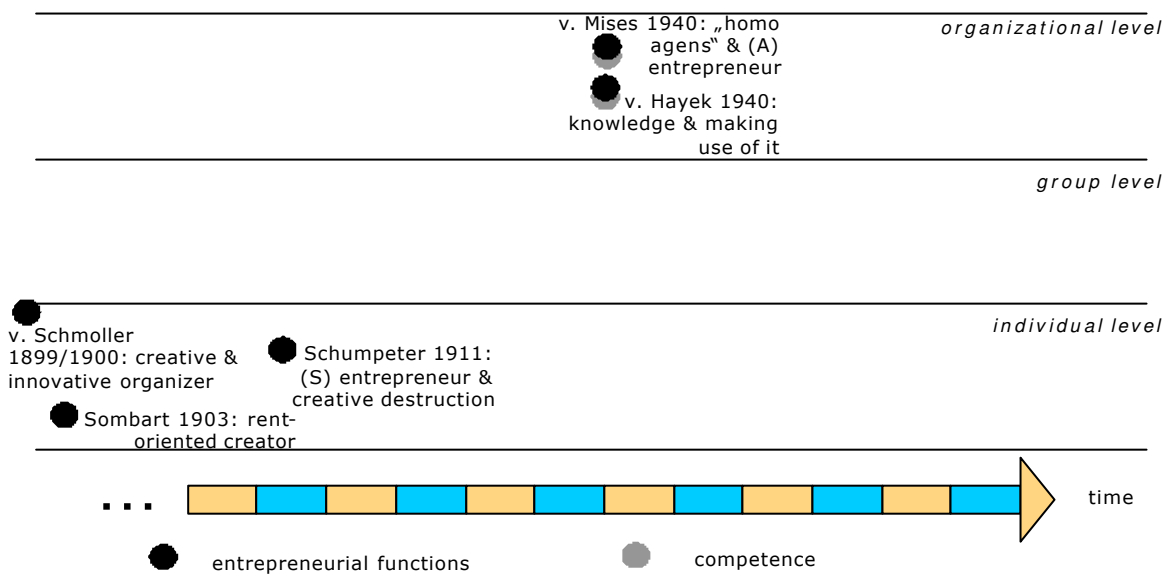
along with tackling three basic tasks. The first one is about organizing economic activities which can be regarded as both an internal and external matter. Moreover, risk taking goes along with speculation which refers to make decision on markets. Finally inspection is required as an internal task. All in all Riedel's argument clearly demonstrates that taking risks can hardly be separated from the execution of other entrepreneurial functions as mentioned above. There is no doubt that even businesses in Africa go along with numerous risks. Exploring the fundamentals of the risk management function as outlined in the respective contributions can therefore be an important cornerstone for management in developing countries.

Hans von Mangoldt (1855) follows a similar track. By analyzing the roots and limits of profits, he concludes that an asymmetric distribution of knowledge among economic actors is required in order to explain why and how superior profits can be attained. Based on this argument, it turns out that knowledge matters in competition. At the same time the asymmetrical dispersion of knowledge requires activities of coordination. The more professional these activities are performed, the more economic actors are in a position to overcome the limits of profits. Coordination is therefore a means in order to facilitate the transmission of the productive forces of a firm. Accordingly, entrepreneurial action implies to find sufficient modes of both external and internal coordination. Von Mangoldt's reasoning clearly points out that coordination and knowledge management are closely intertwined. For developing countries in Africa several conclusions can be drawn. However among the most basic ones it has to be pointed out that knowledge availability and knowledge processing are becoming core in management. Moreover, contingent and country-specific coordination modes are to be developed in the face of both effectiveness and efficiency.

Close to these considerations, Friedrich List (1841) went a step beyond knowledge related issues by still referring to coordination. By regarding the work of both Xenophon and Adam Smith, List pointed out that the division of work is a crucial means in order to increase efficiency. Nevertheless, List made an important point when he stated that concentrating too much on a division of work might be disadvantageous. In particular he raised the question who controls the alignment of the heads, hands and feet of workers. His answer to this question was entrepreneurial spirit. His productivity function consists of both division and unification of work. This implies that the division of work will not lead to a satisfying end unless entrepreneurial activity cares for aspects such as work alignment and the integration of activities in an interpersonal context. Taking a closer look at the meaning of List's debate, we can identify the first roots of the discussion of the so-called organizational competences (Teece et al. 1997). This is, in fact, in line with von Mangoldt's view but goes a little bit beyond as not only knowledge matters but even the utilization of knowledge by making use of competences. In figure 1 the roots of the most recently up and coming competence-based view (Sanchez et al. 1996) are marked by grey dots. A competence itself is a construct which is highly relevant to economic progress in the developing countries. The term "adapted technology" is used quite frequently when solutions for developing countries are addressed. To make such adaptations, instead, is a quite subtle matter which requires the availability of competences of the acting persons, groups and organizations. Such a competence, however, is dispersed asymmetrically in international competition. It is a matter of course that economic actors from Africa have – in particular facing the available body of knowledge – a specific and indispensable profile in order to arrange these adaptations. At least as parts of respective technology developments such African firms are of invaluable importance.

In the late 19<sup>th</sup> century Victor Mataja (1884) opened up a new discussion when he introduced the entrepreneur as a risk-taker and simultaneously as an arbitrageur. It is worth mentioning that Mataja belongs to the driving forces of thinking in terms of arbitrage options in the context of entrepreneurship. However it was up to the so-called “Modern Austrian Economics” to put his thoughts into a more cohesive and comprehensive whole.

Figure 2: A Historama of German Entrepreneurship Research – The First Half of the 20<sup>th</sup> Century

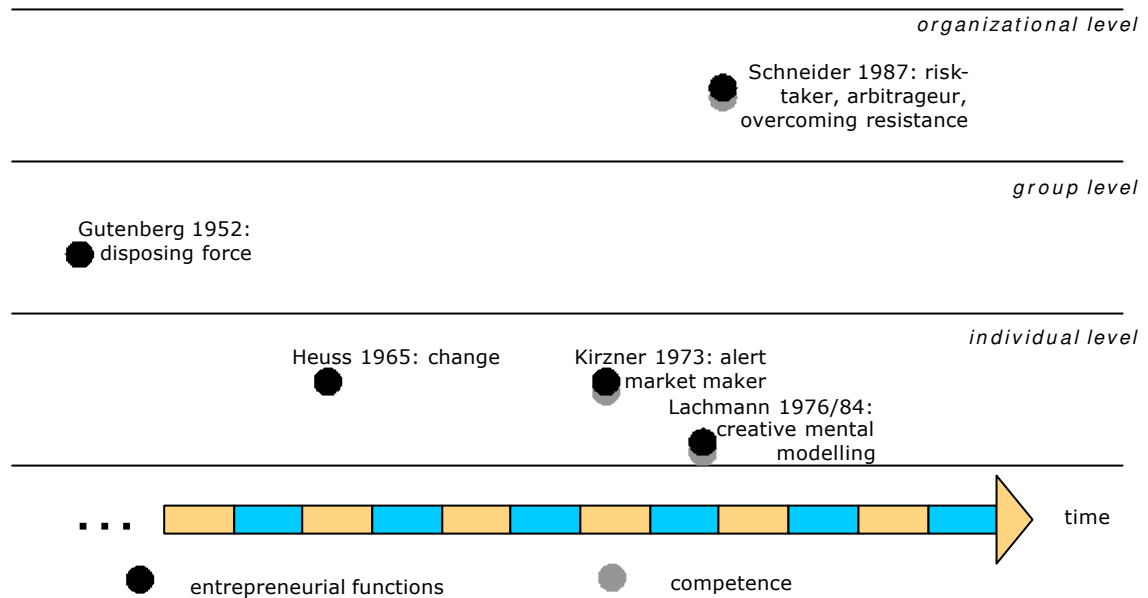


German entrepreneurship research made a breakthrough and reached a certain peak in the early 20<sup>th</sup> century. Academicians such as Gustav von Schmoller (1900) and in particular Joseph Alois Schumpeter (1911) developed a picture of entrepreneurial behavior which was focused upon a comprehensive process of innovation. Schumpeter argued that it is by far not enough to think in terms of product innovations. His major point was that a process of creative destruction in markets, breaking free from the routines of a given market situation, can only be achieved in case of an innovation process which consists of different innovative elements such as product innovations, process innovations, organizational innovations, innovations in the area of purchasing, and/or sales related innovations. To combine these different innovative inputs and to focus them upon the target to build a new market and destroy an old one is core of Schumpeter’s thinking. His understanding of innovations is in rather no way a technical one. Schumpeter argues that there is an ocean of technological novelties. However, only a small number of these novelties has potential to trigger a process of creative destruction. Accordingly the entrepreneur as a more or less elitist person has to make a rough selection. Having found those novelties which could represent profitable innovations later on, a follow up task is to overcome resistance in many ways. Markets are very often not prepared for a new solution. Internally there are lots of persons who fear a new surrounding and everything

that can be overtaxing. Schumpeter's (*S*)-*entrepreneur* is the one who initiates and implements radical changes in the market. To find out new solutions in any way is indeed a core challenge for developing countries. Analyzing the value chains in Africa for instance clearly indicates that improvements are possible in many different ways. Service innovations, new organizational modes, less cost intensive ways of production are crucial challenges for the developing countries. Accordingly, the concept of Schumpeter offers a lot for management in Africa.

About in the middle of the 20<sup>th</sup> century the work of the New Austrian Economics became more and more popular. Among others Ludwig von Mises (1940) as well as Friedrich August von Hayek (1940) made important contributions in order to point out that entrepreneurial behavior cannot only be regarded as a task of a single elitist person. Oppositely, every person in an organization is in a position to conduct entrepreneurial functions. Insofar von Mises and von Hayek made a switch from the individual level to the organizational one. In retrospective one can say that Ludwig von Mises developed another kind of entrepreneur when he shaped his concept of the so-called 'homo agens'. His (*A*)-*entrepreneur* is an active person which is awake all the time and trying to shape the outer and inner conditions of the firm. This implies to generate new frameworks regarding the targets of the organization and to create the respective means in order to attain them. The 'homo agens' is driven by the objective to get rid of unfavorable conditions. Von Hayek accompanied this picture and regarded the entrepreneur as a coordinator of knowledge. There are many important researchers in the second half of the 20<sup>th</sup> century who followed this track made up by von Mises and von Hayek. Israel Kirzner (1978) was maybe one of the most powerful protagonists of the ideas of von Mises and von Hayek. He painted the picture of the entrepreneur as an alert arbitrageur, permanently looking out for new opportunities to make a deal. In this context the role of the entrepreneur can be regarded as the one who is building bridges between factor and product markets and who is aware of the real needs of the customers. Once again knowledge is the most important driving force in this regard. All these thoughts clearly point out that there is a lot of leeway in order to shape outer conditions the way the entrepreneur and his firms likes. Ludwig Lachmann (1976 & 1984) is a more radical protagonist in the same direction. Thinking in terms of knowledge-based market making and exploiting the chances of unfulfilled demand is indeed a core challenge for developing countries. Identifying the most efficient solutions of the world market and to transfer them to the country of origin becomes an important challenge in this regard. However, it takes the entrepreneurial obsession in order to make use of these chances. The alertness of the entrepreneur is both a virtue and a competence. As a competence, it is backed up by knowledge. This knowledge, once again, is dispersed asymmetrically with clear advantages of actors acting in their country of origin.

Figure 3: A Historama of German Entrepreneurship Research – The Second Half of the 20<sup>th</sup> Century



Finally, there are at least two more academicians who made important points of German entrepreneurial research. The one is Erich Gutenberg (1952). His entrepreneurial understanding was dominated by the value-added process. By developing the theory of production, Gutenberg recognized that beyond striving for efficiency there is a need for coordination to be conducted by the entrepreneur. Based on this he introduced the disposing force which is directing the factor and process management – primarily based on planning.

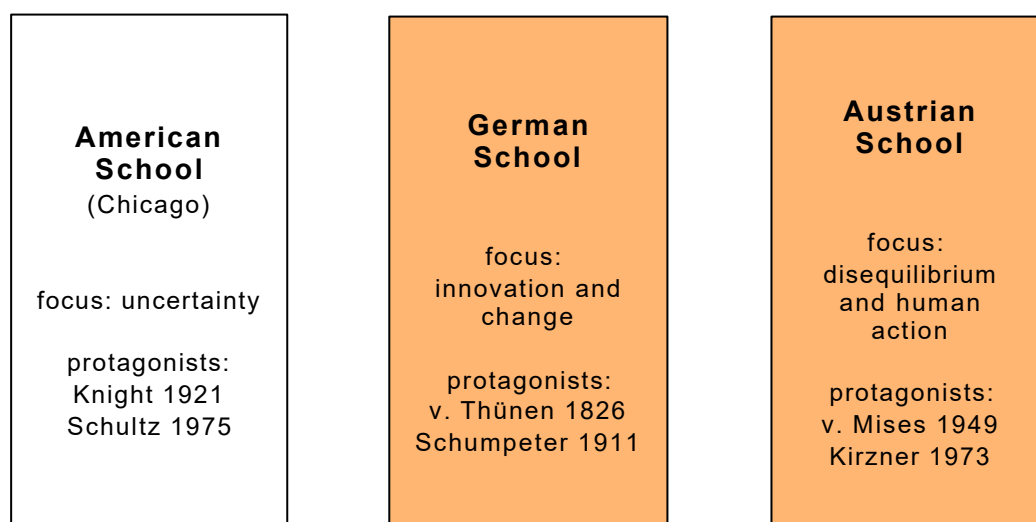
Dieter Schneider (1987) made one step ahead when he developed the conceptual framework consisting of multiple entrepreneurial functions. In his view there is one special function to be executed in order to explain the emergence of an organization. This is the risk-taking function. It implies that the entrepreneur takes the income-related risks of other people. In order to run an organization this risk-taking function is still necessary to be executed, however, it needs to be accompanied by the arbitrage function and the function to overcome resistance within the firm.

The various contributions clearly indicate that German-speaking entrepreneurship research has a lot to offer. More can be found in literature, as i.e. the contributions of Max Weber, Werner Sombart and Friedrich von Wieser are not discussed (for an overview see Hering/Vincenti 2005; Schneider 2001). Putting it all together, the next step is about an interim result.

### 3 Entrepreneurial Research: An Interim Result

Following Hébert and Link (1988) there are different entrepreneurial schools to be distinguished. They argue that there is an American School, closely connected with the work of Chicago School. The focus of this American School is about uncertainty with its protagonists such as Knight (1921) and Schultz (1975). Hébert and Link identify a so-called “German School” which focuses upon innovation and change. Von Thünen and Schumpeter can be regarded as the most important driving forces. The third school is the Austrian one which focuses upon disequilibria and human action. Von Mises and Kirzner are the main protagonists in the view of Hébert and Link.

Figure 4: Entrepreneurial Schools of Thought



It turns out that such a systematization does not really correspond to the work in the three different regions. The former chapter pointed out that German-speaking entrepreneurship research consists of contributions belonging to both uncertainty issues, innovation and change, and human action. Accordingly such a distinction, as promoted by Hébert and Link, appears to be misleading. Moreover, it does not really make sense to separate the Austrian and the German school because of the fact that many researchers worked in Germany as well as in Austria (and many of them later on in the United States!). Moreover, the interdependencies are so strong that such a rough differentiation does not hit the point.

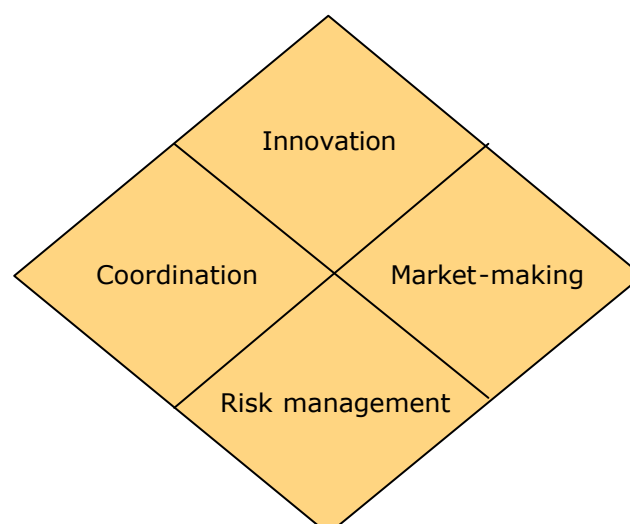
A basic insight of entrepreneurial research in German-speaking countries is about the opportunity that entrepreneurial action is not restricted to single persons. Oppositely the work of von Mises and Schneider indicates that everyone in an organization can act as an entrepreneur and will do so. Ludwig von Mises (1940) pointed out as follows: “Whenever the economic science addresses the entrepreneur, a function is meant and not a person.” Dieter Schneider (1995) added that with regard to uncertainty in income

seeking everyone is the entrepreneur of his own personal knowledge, of his own capacity to work, and his other personal assets. This insight is very important with regard to work in companies of developing countries. To trigger the creativity of every employee becomes a major challenge in recent management. Everyone can generate good ideas in order to enlarge or/and enrich the business of the firm. This goes along with the necessity to give more formal power to decentralized units of the firm.

It makes sense to classify the respective considerations as to the entrepreneurial functions into three different groups. The first one is the *'single function' school* and implies that there is one and only one core function to be executed in order to be successful in competition. The arbitrage function of Israel Kirzner is one example among others. Secondly there is a *'meta function' school* with rests upon the notion that executing a certain function goes along with the execution of other sub-functions – implicitly or explicitly. The innovation function of Joseph Schumpeter is one good example in order to demonstrate that innovation cannot be separated from coordination or market-making. This already leads to the third school, the *'integrated function' school*, as promoted by Dieter Schneider. With regard to recent managerial challenges, it makes sense to refer in particular to the meta function school or the integrated function school as outlined before.

Based on this a system of entrepreneurial functions can be derived which is dedicated to explain the emergence of the firm as well as the efficient use of the available potentials and the task of safeguarding the firm as a system. In this regard it takes the innovation function in order to explain the system renewal and the system emergence. In order to utilize an existing system efficiently, it takes the so-called coordination and market-making function. The system protection is subject to the risk management function. Figure 5 gives an overview of the four mentioned entrepreneurial functions belonging to the thinking of the integrated function school.

Figure 5: Model of Entrepreneurial Functions



Such a systematization is useful in order to demonstrate that depending on a single situation the combination of entrepreneurial functions is different. We can observe that in turbulent environments it is important to concentrate on executing the innovation and risk management function, whereas in static respectively stable environments the coordination function as well as market-making becomes a core anchor point. It takes entrepreneurial behavior in order to perform the respective functions in an adequate intensity. This is indeed a matter of entrepreneurial competence as a meta-competence itself.

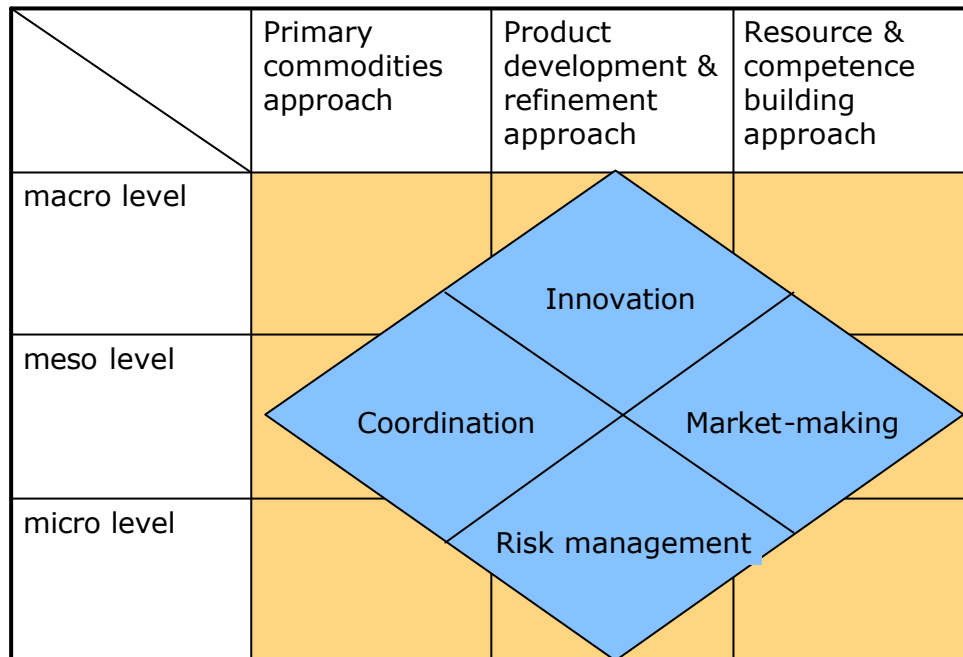
Based on these fundamental considerations it is now time to start a discussion regarding the potential of entrepreneurship research in order to fix problems of Africa's economic challenges in the face of the primary commodities dilemma.

#### **4 Connecting German Entrepreneurship Research and Africa's Economic Challenges: Basic Considerations**

Among the developing countries there are many of them facing the primary commodities dilemma. Entrepreneurial activities are useful in order to overcome some of the related problems. The cutting edge of entrepreneurship is the fact that entrepreneurship triggers activities to go beyond the current business and its problems. In this respect there are at least three different approaches to be identified. The first one is to develop a more refined primary commodities approach, trying to exploit the market opportunities more alertly. Such an approach implies to stick to the primary commodities. The second solution is directed towards product development. By the help of these product development activities the core intent is to arrange a shift towards more refined product packages. Such product packages should represent comprehensive solutions from customers' point of view. A third approach is focused upon a different layer on management. This approach can be called "resource- and competence-building". It is up to the following paragraphs to fill these approaches with some selected ideas being useful to overcoming the primary commodities dilemma of African countries.

Whenever entrepreneurial activities are addressed, we should keep in mind that not only the micro level of the respective firm should be touched on. Of course the micro level can be regarded as the most fundamental anchor point of entrepreneurial activities. Nevertheless, entrepreneurial activities should be accompanied with action resting upon a meso level and a macro level. This implies that with regard to the meso level the power of a group of different firms is required in order to overcome severe problems. Collectives of small- and medium-sized enterprises represent one example among others. Furthermore, political back-up from local and national authorities, resting on the macro level, is required in order to foster entrepreneurship and to overcome economic and other obstacles.

Figure 6: Entrepreneurial Functions and the Primary Commodities Dilemma



Accordingly there is a three times three grid for initiatives in order to deal with the problem of the primary commodities. This grid can be filled by making use of the entrepreneurial functions as mentioned above. This implies that innovation, coordination, market-making, risk management are to be blended in order to form useful initiatives with regard to every single cell of the grid. By the way, it should be mentioned that there are, indeed, approaches which are focused upon only one cell. On the other hand one can think of solutions which go beyond the boundaries of a single cell. The objective of the follow-up consideration is to stimulate an entrepreneurial process of generating options by giving some examples what can be done. In other words, it is not intended to develop a comprehensive program.

The follow-up considerations are organized as follows: We start by giving an overview in order to introduce general solutions. Based on this overview, six different options are introduced in order to fill the grid and to overcome the mentioned problems. All these considerations are part of the next chapter.

## 5 Core Issues Derived from German Entrepreneurship Research

Although the next considerations are based upon insights from German entrepreneurship research, it should be pointed out that there are, in fact, lots of interesting contributions from entrepreneurship research in other regions. Only in order to name a few, Ray (1988) makes some important comments on the role of entrepreneurship in economic development. Kim (1988) refers to the role of entrepreneurship in a rapidly developing country by referring to the Republic of Korea. The article is insofar relevant to this contribution as the micro level is addressed as well as the meso and the macro level. As



to the African situation the article of Tiffin and Osotimehin (1988) is relevant due to the focus upon technical entrepreneurship and innovation in Nigeria. Besides Anyansi-Archibong (1987) and Broehl (1982) made similar contributions.

Figure 7: Primary Commodities Dilemma and Responding Options

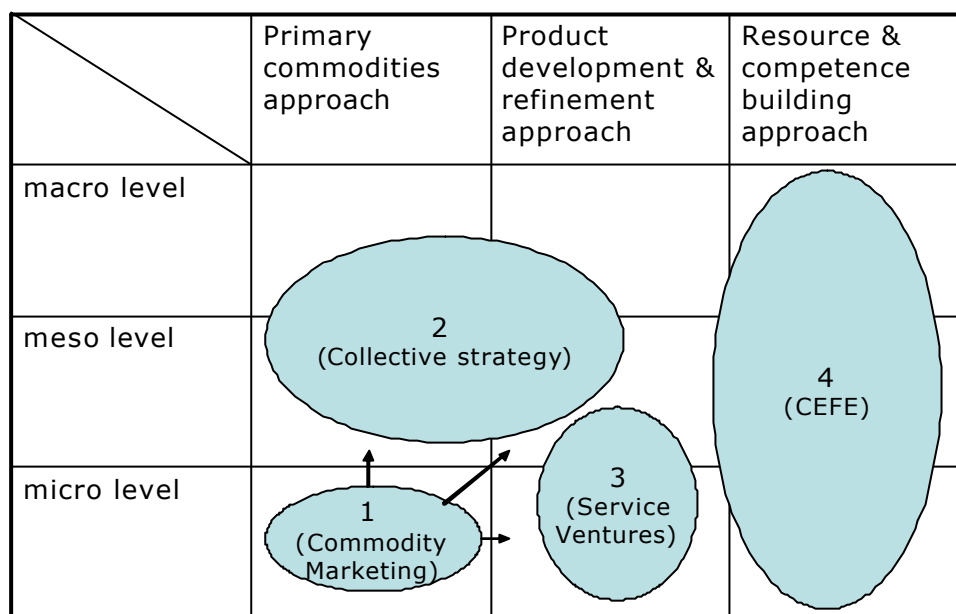


Figure 7 consists of four different approaches, combining different strategic options and resting upon entrepreneurial activities.

### *Commodity Marketing*

The marketing of commodities is a difficult kind of business due to the fact that the homogeneity of products and market processes creates a situation which is close to the state of perfect competition. In those situations there is only a very few number of different instruments for marketers to be used. Many German firms participated in the commodity business and learnt their lessons the hard way. Among the most important mistakes we can find the lack of entrepreneurial spirit and entrepreneurial activities. This means in particular, that firms very often execute the market-making function insufficiently. They follow a certain kind of “bulk logic”, which very often goes along with aggressive price tactics in competition. Whenever the situation gets closer to predatory pricing, there are more losers than winners in competition. Accordingly pricing must be understood as a very sensitive instrument of marketing and suppliers should strictly avoid a too aggressive way of pricing. Moreover German firms underestimated the fact that even in commodity markets there are some attractive market niches. By following a bulk logic they are not at all in a situation to address these market niches with respective offerings. Moreover market-making is practiced insufficiently if there is no awareness of the power of brands in competition. Examples from numerous consumer markets clearly indicate that brands work even in the area of homogeneous goods. Accordingly market-making should imply to build a brand identity which refers to the

core product as well as the supplier. At least this is useful in order to demonstrate supplier's reliability. Sometimes it is even possible to trigger emotions which help firms to get into a more favorable position in the market.

Beside the opportunities of market-making we can observe that even innovation management is practiced the poor way. There are indeed several opportunities to start innovation activities. Learning from the approach of Joseph Schumpeter we can say that in the area of commodity marketing product innovations are possible in the area of services. Besides efficient service offerings, accompanying the core product, innovation management should imply to look out for more efficient production procedures as well as new, fine-tuning organizational modes in order to market the commodities.

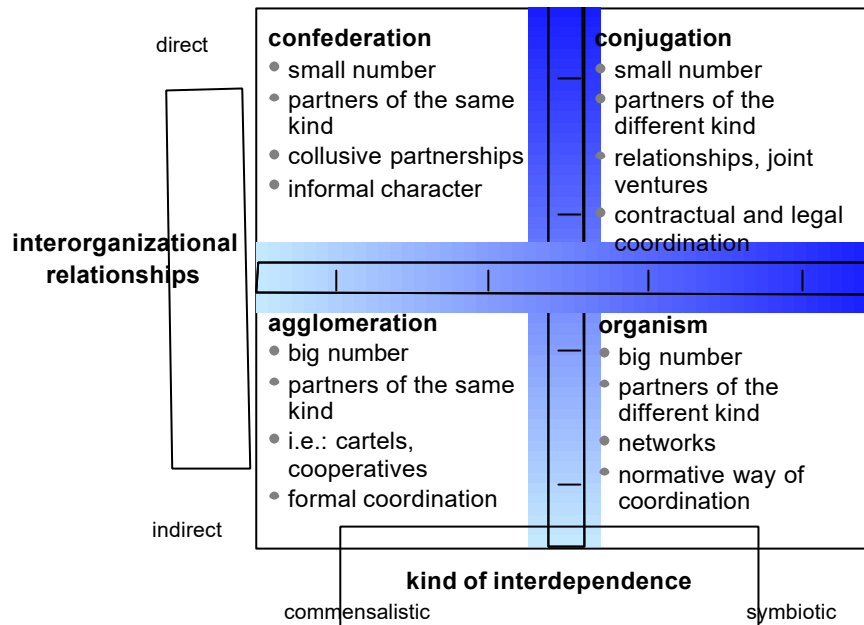
Finally German firms quite frequently make use of coordination in an insufficient way. They neglect the opportunities of inter-firm cooperation. Cooperation, however, is useful in order to concentrate the power of single firms and to arrange a state of continental respectively international competitiveness. Insufficient coordination, by the way, also goes along with the fact that the business strategy dominates the corporate and the collective strategy. This is disadvantageous due to the fact that synergetic effects going beyond the strategic business units cannot be appropriated in the area of strategic management.

### *Collective Strategy*

Basically, this option was briefly mentioned within the scope of the chapter above. With regard to current market situations in many cases competitive advantages can only be achieved if the assets of different partners are pooled. However, loosely coupled cooperations often do not lead to the desired end. This impression is basic in order to claim for collective strategies. The collective strategy implies strategic alignments of strategic business units of at least two single firms. In case of primary commodities even two firms are in most cases not enough in order to exert considerable power on the market. Therefore the notion of the so-called "industry market strategy" is useful in order to address the problems of firms in African countries. Scrutinizing the specific situation, there are at least four basic modes in order to conduct a collective strategy. Following the argument of Astley and Fombrun (1983, p. 580) two basic dimensions can be identified in order to derive such collective strategies. The one dimension addresses the kind of inter-organizational relationships and distinguished between a small number constellation where only a few partners cooperate and a collective with many partners or simply the suppliers of an industry in total. The other dimension is about the kind of interdependence. In this connection Astley and Fombrun identify commensalistic cooperations, consisting of partners of the same kind. Oppositely, there are symbiotic relationships where partners of the different kind come together in order to pool their strength and weaknesses. Regarding figure 8, there are the strategic cooperation options called:

- confederation,
- agglomeration,
- organism and
- conjugation.

Figure 8: Collective Strategies (Astley/Fombrun 1983, p. 580)



The typical characteristics of primary commodities, the respective market structures as well as the usual market processes tend towards commensalistic partnerships. Agglomerations, such as cooperatives, are a typical response and very often go along with an efficient use of the coordination and risk management function. However, as far as international markets are concerned and alert ways to overcome the primary commodities dilemma are to be found, even other ways of, for instance, symbiotic strategic cooperations might come into play. The leading thought should be centered around the most important target to overcome critical bottlenecks by pooling critical assets. By the help of these collective strategies it might be possible to control important steps of the value chain. This includes even considerations of forward cooperation respectively forward integration.

One example for the collective strategies on the meso level is the initiative called “Nigeria 2010”. The initiative fosters regional clusters as for instance Minna in central Nigeria (for such examples see Tiffin/Osotimehin 1988). The regional cluster is dedicated to the development of infrastructure enabling firms to engage themselves in car mechanics. The cluster of firms specializes in repairing second-hand cars bought from other countries which clearly demonstrates that the market-making function is to be executed alertly as well as the coordination function. Within this network of different firms, the Minna project is about providing infrastructure, developing education facilities and providing resources for a big number of similar entrepreneurs. The network facilities are easily accessible at very low costs for the participants. Furthermore the cooperation between the partners is based upon the principle of mutual help. The work within the network is characterized by a permanent and multi-directional competence transfer between the single firms. Due to the fact that the functional cooperation refers to hundreds of different entrepreneurial mechanics, it turns out that the solution is a very effective one where the infrastructure is utilized to a high degree. The network is

organized by the NATA association. NATA provides support in the areas of accounting, administration and other similar functions. Accordingly a service center is part of the whole infrastructural solution. Based on reliable assets as well as entrepreneurial spirit the work of the partner firms is predominantly characterized by a motivational push which helps to utilize the available potential.

The example indicates that collective strategies can be applied in the area of primary commodities on the one hand and product development and refining given solutions on the other hand. The more local and national authorities support these initiatives, the more likely is the overall success. However, even without such support improvements of problematic situations are achievable.

Based on these considerations it is once again useful to address the opportunities of branding. Branding is an option which is directly connected with the entrepreneurial function of market-making. A working brand management concept established in order to overcome the problem of marketing primary commodities should be rooted at different levels. One example among others is the marketing of Kenya Coffee. In case of Kenya Coffee there is a strong intent of the government of Kenya to establish a brand reputation with an umbrella effect being relevant to almost all coffee suppliers of Kenya. This, indeed, demonstrates that a collective strategy is to be worked out. However, there are more examples helping to overcome the primary commodities dilemma. A case of cooperative branding is the example of the Dole bananas. Even Dole rests upon the strength and reputation of a considerable number of fruit suppliers. As there is a brand extension the example of Dole even demonstrates that overcoming the primary commodities dilemma could go along with initiatives in order to engage in product development and refinement. Branding in general (Aaker and Joachimsthaler 2000, Meffert and Burmann 2002) is to be regarded as a powerful tool for entrepreneurs. Branding is a sign of quality and avoids anonymity. Moreover branding facilitates customer loyalty and avoids the threats of substitution in competition. It makes differentiation real and opens the door to a price premium. Although branding is a time consuming and cost intensive process it should be considered even in developing countries to make such an investment which might pay off later on. However it should be kept in mind that brands deliver competitors a platform for attack.

### *Service Ventures*

Venturing activities can take place in two different ways: the first one is about the creation of new entities whereas the second one is about corporate venturing. Facing the situation of firms in developing countries, both modes of venturing are relevant. In particular for existing firms it makes sense to analyze the value chains they are in. One lesson from German markets can be easily transferred to firms in Africa: In almost every value chain there are bottlenecks and unsatisfied needs. It is up to entrepreneurial activities to recognize these weaknesses and deficiencies. In most of the cases the services rendered are not well fitting to the product infrastructure on markets. Accordingly there is much room for developing new service offerings. Sometimes pure innovations are required in order to find new ways how to conduct the business or parts of it. Sometimes only modifications are required in order to respond to market's needs. This clearly points out that two entrepreneurial functions are basically to be executed: firstly, innovation is necessary, secondly the market-making function is required. By closely intertwining these two entrepreneurial functions, the opportunity arises to develop completely new business models. These business models are the most important anchor point in order to create service ventures.

Business models basically consists of three different elements. The first one is the so-called value proposition, which is followed by the second element, the so-called value-added architecture (Timmers 1998). These two elements are accompanied by the so-called profitability model. Considering the fact that service ventures belong to the option of product development and refinement, market relevant improvements are to be worked out within the scope of the three mentioned elements. The scope of improvement approaches is broad. One can think of product-accompanying services where the service infrastructure is surrounding a core tangible product. Besides that firms in developing countries can think in terms of stand-alone services. Facing the fact that for instance the logistics infrastructure is very often poor, it makes sense to develop stand-alone services in this area.

By the help of the example of educational services, which are core service offerings in many value chains in developing countries, it is possible to point out important elements of business models. With regard to the value proposition it is necessary to recognize the demand of educational services over a longer period of time. By the help of different media the demand for educational services varies almost all the time. Accordingly the education services need to be adapted regularly. It is important to define the most relevant education demands. The relevance should be derived from customers' needs and should take into account that those educational services should be evident from customers' point of view. Having identified this core point of the value proposition it is necessary to work out a service offering in a relational context. This implies to develop these educational services in close cooperation and adaptation with the target customers.

Having defined such a value proposition with a core service infrastructure the value-added architecture is required in order to plan the processing of the services. Such a process management should take into account the typical service feature that the customers are to be integrated into the service process. This means in the area of educational services that a benefit can only be achieved if the customer is adequately involved in the service activities. Accordingly the value-added architecture consists of autonomous processes which take place without any involvement of the single customer and the integrative processes where customer integration takes place. Moreover the value-added architecture should respond to the potentials required in order to produce the service. Hence, capacity scheduling is an integral part of planning the value-added architecture.

Finally the profitability model is to be derived. Based on the value proposition one can derive estimated turnover data. The value-added architecture is useful in order to plan the required processes and to derive the respective costs. By putting value proposition and value-added architecture together, sales and costs can be identified and can represent the basis in order to derive approximated earnings and profit opportunities.

Although the definition of new service business models primarily rests upon the innovation and the market-making function, the definition of business models cannot take place without the execution of the coordination function. This is another proof for the need to blend the different entrepreneurial functions in order to be successful.

#### *Resource and Competence Building: The CEFE-Project*

CEFE is the acronym for Competency-based Economies, Formation of Enterprise (Kolshorn/Tomecko 2002). CEFE was initialized by the Deutsche Gesellschaft für

Technische Zusammenarbeit (German Association for Technical Cooperation). Having started the activities in Asia the CEFE method was transferred immediately to other continents such as Eastern Europe, Africa and South America (Kolshorn/Tomecko 2002). The CEFE method represent an approach in order to foster entrepreneurial activities at both the macro and micro level. Analyzing the very nature of the program, it turns out that it is dedicated to entrepreneurship education addressing all the entrepreneurial functions mentioned above. At the heart of the CEFE program we find core intentions such as fostering creativity, proactive behavior and the competence to find orientation even in different situations. In order to attain the CEFE-specific goals it was necessary to develop an infrastructure in order to create a challenging and fertile environment.

In particular the CEFE approach represents a four-week program of entrepreneurial education (Kolshorn/Tomecko 2002). There are round about 20 participants in such a program initiative. With regard to the results of the CEFE activities, it turned out that by such a four-week program there were on average twelve start-ups with round about 5.6 employees per start-up. These results clearly indicate that the product-oriented approaches are by far not enough for developing countries. Moreover, it is necessary to find solutions in the area of the potentials of each firm. Obviously, the aligned activities at the macro, meso, and micro level are crucial in order to make the initiative work. Once again, emphasizing the entrepreneurial functions and their execution becomes a core task.

## 6 Conclusions

Entrepreneurship is, by far, more than management. It implies to go beyond the boundaries of the current business and look out for promising opportunities for business in the future. Entrepreneurship is not only working within the system. It is rather about building and modifying the business. In order to operationalize what entrepreneurship really is, entrepreneurial functions based on German entrepreneurship research have been introduced in detail. Four different entrepreneurial functions have been highlighted: innovation, coordination, market-making, and risk management. With regard to any activity in order to overcome the primary commodities dilemma of developing countries one should take into account,

- which entrepreneurial functions are core,
- how different entrepreneurial functions are to be blended,
- which activities are to be derived from the mix of relevant entrepreneurial functions.

Entrepreneurship and entrepreneurial functions open the door in order to shape market conditions in a desired way from firms' point of view. Unlike neoclassic theory, the entrepreneurship discussion which is deeply rooted in the classic tradition is based upon disequilibria and follows a voluntaristic point of view. This is a clear message with regard to firms in developing countries. In many cases the market situation is not given. It can be shaped to a certain degree, and the more firms come together in order to cooperate, the stronger they are and the more leeway is in order to trigger processes such as a creative destruction in the sense of Joseph Schumpeter.

All in all, entrepreneurial spirit and entrepreneurial thinking is about anticipating what is good for the target markets in 10 respectively 15 years. Furthermore it is to be anticipated what the core competencies in the future will be looking like and how they can be

developed. Entrepreneurial action does not neglect the situation firms are currently in, however entrepreneurship is always about ways in order to overcome an unsatisfying situation. Based on this, these and (many) more concrete messages can be derived. Accordingly this paper should only be regarded as a trigger for entrepreneurship. For management in developing countries the connected opportunities can be useful.

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