

**ENTREPRENEURIAL THEORY AND PRACTICE:  
IMMIGRANT OPPORTUNITIES**

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## ABSTRACT

All over the world, many immigrants and their children have turned to small business when faced by the limited opportunities open to them in the labor market. For Israel, essentially a country of immigrants, worldwide experience in this area is of great significance. The recent wave of immigration from the former Soviet Union has greatly increased the Jewish population of Israel whereby new immigrants now constitute around 10% of the national work force. A rapid influx of immigration may lead to a political anti-immigrant backlash. Indeed, the current under-employment of the labor force and the competition for jobs have created a need for new employment opportunities: one possible solution is the promotion of entrepreneurial initiatives.

Our aim was to determine practical implications from the international and Israeli literature, for Israeli policy makers in the area of immigrant entrepreneurship. A theoretical background provides the justifications and frameworks of analysis for policy efforts in this area. A local economic development approach encompasses much of the policy supporting entrepreneurship and the contemporary development of entrepreneurial theory allows recognized entrepreneurial traits and problems to be identified. From this theoretical base and a review of entrepreneurial support elsewhere, this research analyses and describes common features of immigrant entrepreneurship. The entrepreneurial characteristics of the current immigrant wave are also described; on the basis of our own investigations together with other research from Israel and Russia.

Some general conclusions and policy recommendations from the international literature review include an emphasis on policy focus and coordination between different support initiatives. Specialization and the possible standardization and qualitative control of support are also recommended. Of particular significance to the Israeli context, of immigration from the former USSR, is the major role of interpersonal migration networks. Interpersonal networks between immigrants, immigrant communities and their origins may be the key to the phenomenon of immigrant entrepreneurship in Israel. In addition to the innovative and growth generating functions of entrepreneurship, immigrant businesses may provide additional labor market opportunities through their formation of an "immigrant economy". Based on immigrant (migration) networks and the peculiarities of specific immigrant communities, this economy provides alternative development, complementary to the main stream economy.

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## **I. THE STRUCTURE OF ENTREPRENEURIAL SUPPORT**

### **1.1. Introduction**

The support of entrepreneurship and small business development is a widely recognized means of generating employment and economic growth, in both developed and developing countries. The theory defining the role of entrepreneurship in modern economies and the experience of policy development elsewhere provide a crucial background to the study and evaluation of policy in Israel. In this respect this report presents a theoretical framework to support coherent policy development, the successful design of projects and evaluation of all levels of policy development and implementation.

The overall theoretical framework includes separate bodies of theory, all relating to an understanding and evaluation of entrepreneurship policy. The approach of much contemporary policy suggests a "from below" model of local economic development, involving the mobilization of local resources for the achievement of locally defined goals. The means adopted often involve the development of institutions for the support of local development; a measure supported by a body of theory claiming institutional development to be a principle factor influencing economic growth and development. Indeed, the principle means of entrepreneurship promotion is the development of institutional support.

Policy development depends on the nature of the local administration and the resources available. A general trend, in developed countries, is the decentralization of authority from central to local government, accompanied by cutbacks in local government funds. This has led to a change in the role of local government from the regulation to the facilitation of development and a widespread need to tap non-government resources, mostly in the form of public-private development partnerships.

The review of the various methods for the promotion of entrepreneurship provides a basis for comparison with similar developments in Israel. Evaluations of efforts to promote entrepreneurship stress the need for the definition of clear objectives at each stage of policy development. If a local economic development focus is advocated this would suggest that objectives should focus on the satisfaction of local goals and the exploitation of local potentials. Projects supporting entrepreneurship should be seen to be integrated into the local economic framework and be coordinated with other support efforts. Project specialization is recommended, where efforts



should focus on specific types of entrepreneurial support in terms of target group and type of firm and stage of firm development. Policy definition and the institutional development to implement it must therefore reflect local interests and be sensitive to feedback from local populations. The question should also be raised as to the potential of equity capital support in Israel. Current means of small business financial support focus on access to debt or loan capital only.

The key concepts are project focus, the clear definition of project objectives and the efficient coordination of different projects within the local economic development framework. Policy development and implementation should also consider the role of private capital in the pursuit of local economic goals.

## **1.2. Theoretical Background<sup>1</sup>**

### **1.2.1. Local Economic Development**

The context of local economic development policy in many developed countries, is that of widespread restructuring. Processes of deindustrialisation, and an increase in the service orientation of developed economies are creating new patterns of development and decline. At the same time, markets are expanding and becoming increasingly competitive, requiring a high sensitivity to market signals, and flexibility to adapt thereto to take advantage of market opportunities. In this period of economic change, effective local economic development policy is crucial for those areas untouched by national or regional economic development initiatives, or increasingly peripheralised by industrial decline and new patterns of development.

Local economic development may be broadly defined as irreversible economic growth characterized by an increase in real income per capita (Coffey and Polese, 1984). Beyond this, the concept of local economic development is ill-defined. This emerging field is being shaped by the experience of current initiatives, in a body of policy that corresponds to no accepted model of local economic development (Blakely, 1989). A number of recurring concepts may be identified, however, and a model is put forward below, emphasizing the significance of entrepreneurship. The model<sup>2</sup>

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<sup>1</sup> . Entrepreneurship theory is presented at length in the next section of this report.

<sup>2</sup> . The model is based on a four stage process of 'from below' development by Coffey and Polese (1984).

embodies the principles of economic development 'from below', whilst acknowledging the significance of institutional development and the role of entrepreneurship in development.

Of the theories presented in the literature, much reference is made to development 'from above' or 'from below'. The theory of development from above is based on traditional neo-classical economic theory and adopts the 'growth pole' concept as a means to development. The approach is based on the idea that the growth and benefits generated by a nucleus of investment (at the growth pole) will 'trickle down' to the surrounding economy over time (Stohr, 1981). Critics of the theory claim that the approach causes an increase in inequality, and although it may generate development, it expresses no consideration for the distribution of capital and benefits (Hansen, 1981).

The alternative theory of development from below, has the primary objective of satisfying the basic needs of the local population, by means of maximizing the output of the local natural, human and institutional resources. Social goals are the directive for development, as opposed to simply growth, and economic activity is stimulated internally, as opposed to relying on external motivation and activity to develop the area (Stohr, 1981). An additional aspect of the development process is the distribution of the returns from economic activity, and the build-up of local resource capacity (Coffey and Polese, 1985).

The policy objectives and project criticism presented in much of the current local economic development literature suggest a 'from below' approach to development. Recommendations made include the need for; local growth involving an increase in local economic output and employment, the raising of local income and standards of living; an improvement in local equity involving an increase in access to employment and higher incomes for local minority groups; and the building of local capacity through the development of local resources and skills<sup>3</sup>. In practice, however, many initiatives tend to be biased towards physical development and fail to achieve many of the locally oriented 'from below' objectives, such as directing quality jobs at the local population and economic opportunities at local firms (Levine, 1989).

In Israel also, the public and philanthropic bodies responsible for establishing the entrepreneurship support framework sought to facilitate the development of locally controlled initiatives. In the case of the Israeli small business development centers (MATI), the partnership involvement of the local authorities has been a pre-requisite to

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<sup>3</sup>. See Law, 1988, Turner; 1992, Levine, 1989, Weaver, 1989, and Turok and Richardson, 1984.

center establishment. The centers are administered independently by a local board of directors and the support of the centralized public and philanthropic bodies has been phased out to leave the centers to acquire alternative means of support.

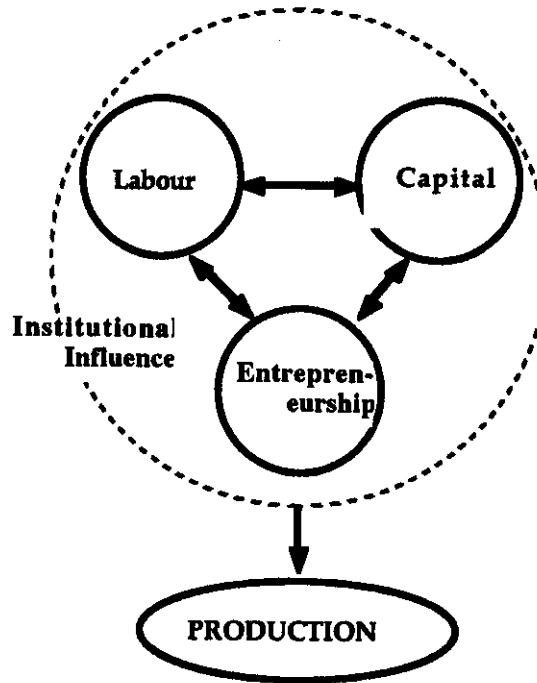
### 1.2.2. Institutional Development

It is generally accepted that economic development is influenced by the productivity of both labor and capital. However, institutional development is increasingly considered to be an important factor influencing productivity and economic development. "Modern economic growth results from the development of institutions that permit an economy to realize the gains from specialization and division of labor associated with...technology." (North, 1987).

"Institutions are rules, enforcement characteristics of rules, and norms of behavior that structure repeated human interaction" (North, 1989). Institutions may also be regarded as organizations and policies, both public and private (Wolf, 1955). They are the rules of societies or organizations that facilitate coordination among people; by helping them form expectations which each person can reasonably hold when dealing with others. Their nature reflects social and cultural conventions which evolve regarding behaviour. In their influence on economic behaviour, a crucial role of institutions is the establishment of the expectations of the rights (and thus the motivations) to use economic resources (Ruttan and Hayimi, 1984).

The integral role of institutions in the functioning of the economy is expressed by Figure 1. A simple model of production is represented, whereby the interactions of the factors of production are carried out in an institutional medium. Institutions influence the behaviour of the members of an economy. As a result they influence the efficiency of decisions made concerning economic factors of production. In this way, institutions influence the formation and development of combinations of capital and labour, and the employment of entrepreneurial talents responsible for production. As such, institutional development may stimulate or impede the behaviour (of the actors in an economy) leading to economic growth. Much of the policy for the promotion of entrepreneurship involves changes in legislation and services and information to increase the amount and success of entrepreneurial activity. Indeed, the policy in Israel to "facilitate" entrepreneurial development focuses on the conditions stimulating and

improving the efficiency of economic activity in the small firm sector and as such is institutional development.



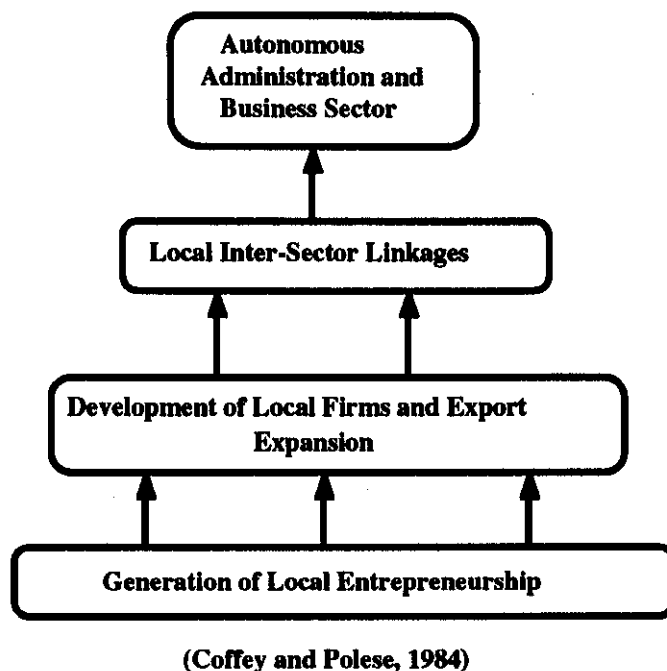
**Figure 1: Factors Influencing Economic Development**

### 1.2.3. A Model of Local Economic Development

In order to conceptualize the role of entrepreneurship in local economic development and the relevance of institutions we present the following model. Based on the four stage model of local economic development conceptualized by Coffey and Polese (1984) (see Figure 2); the model presents a framework for efficient institutional development and places the role of entrepreneurship and policy for its support within the context of the local economic development process. By definition the model seeks to efficiently employ local human, natural and institutional resources, for the satisfaction of local social goals.

Primarily, the emergence of local entrepreneurship is seen to provide the dynamic base for local economic development. This suggests that the origins of future growth and profit centers should be locally based, and does not depend on the attraction of industry and transfer of jobs from outside the region. An energetic economic base

is, therefore, seen to generate from local entrepreneurial activity. This has clear implications for the development of institutions to motivate and facilitate local entrepreneurial behaviour.



**Figure 2: Model of Local Economic Development**

The local entrepreneurial base stimulates the growth and development of the local business sector. Entrepreneurial initiative is needed throughout the local economic structure, but specifically for the generation of a dynamic small firm sector<sup>4</sup>. It is the success and growth of the local small firm sector, that facilitates the expansion of trade beyond the home region, thus transferring wealth to the region. Again, the institutional support and stimulation of conditions conducive to small firm growth, allow the development of the local economy to move to the next level of development.

With time, these exporting local firms may facilitate the development of a local control structure with locally based linkage between sectors. This will depend on the development of local institutions facilitating local networking and information exchange. It is from this locally evolved and oriented institutional structure that the subsequent development of a strong locally controlled autonomous administrative sector is facilitated, and completes the model. It is important to note the role of the

<sup>4</sup>. Entrepreneurial activity relates, primarily, to the development and expansion of small firms. Throughout this research the concepts of entrepreneurship and small businesses will be used interchangeably, and will be considered as synonymous for the purposes of this research.

small business base as a support of the development of larger firm development. In this respect, local economic flexibility and innovative capacity is supplied by a healthy entrepreneurial base. Higher levels of development are crucial, but are seen as dependent on a healthy entrepreneurial and small firm base for balanced independent growth.. The bias of policy towards the support of large businesses, as was the practice in Israel until recently, put small businesses as a relative disadvantage and may well have restricted the ability of self-generating local economic growth.

#### 1.2.4. The Role of Entrepreneurship

The above model places entrepreneurship in the crucial position of providing the dynamism and founding base of a local economy. Indeed, as mentioned above, modern entrepreneurial theory credits the entrepreneur with innovative and adaptive roles necessary for the generation and propagation of economic activity (Kilby, 1971).

Schumpeter (1934) first proposed that the role of the entrepreneur was that of disturbing economic equilibrium through innovation. This was later expanded by Zeigler (1985) in his development of a framework of three sequential stages of the entrepreneurial process; invention, the commercialization of the invention through innovation, and the diffusion of the innovation by imitating entrepreneurs. This framework is supported by Leibenstein's X-Efficiency paradigm (Leibenstein, 1979 and 1978), whereby entrepreneurial perception facilitates the process of diffusion in a world of imperfect information and transaction costs.

The integration of these theoretical concepts allows us to define an entrepreneur as one who both instigates and adapts to economic change. This suggests that an entrepreneur may be defined as the owner-manager of any viable business. The support of the start-up and expansion of small businesses is therefore synonymous with the support of entrepreneurship. The support of small business is, therefore, the support of the development of entrepreneurial initiative; forming the base of sound local economic development.

#### 1.2.5. The Importance of the Small Firm Sector

Alongside the theory stressing the importance of entrepreneurial initiative, there is clear evidence of a substantial increase in the number of small firms in most European countries since the 1960's (Keeble and Wever, 1986). Indeed, in developed

nations, small and medium sized firms with less than 200 workers comprise more than 90% of the total number of firms in these economies and employ 50% of the total labour force (Maillat, 1989). In Israel, 97.8% of all firms employ less than 50 workers and employ almost half of the Israeli workforce (Ministry of Trade and Industry, 1993). The rapid increase in the small firm base in the last decade in Israel may be seen to be at the expense of larger firms with more than 300 employees.

During the 1980's, there was a dramatic increase in policy concerning new business formation in a variety of European countries, especially the UK, Ireland, the Netherlands, West Germany, and France (Fischer, 1989). In the UK alone, there have been a total of more than 200 initiatives in support of the small firm sector since the early 1970's (Mason, 1989). Policy development in this area in Israel dates back to the early 1990's, in reaction to the policy trends elsewhere.

The dialogue<sup>5</sup> concerning the significance of small firms began with a study by Birch<sup>6</sup>, using data from the 1970's, that suggested that more than two thirds of nett employment growth in the US could be accounted for by companies with less than 50 employees. There are a number of possible explanations put forward by the literature for the current increase in new small firms. There is an inconclusive debate<sup>7</sup> as to whether 'recession-push theory', 'technical change theory', 'income growth theory', large firm fragmentation policies, or any combination of the above, may be credited with the changes underway. Nevertheless, the development of this unexplained phenomena is increasingly supported by a variety of measures.

Recession - push theory<sup>8</sup> argues that the increase in the number of new firms primarily reflects the effects of reduced employment opportunities, making self employment a more attractive employment option<sup>9</sup> (Keeble and Wever, 1986). In addition, recession leads to an increase in competition, resulting in the rationalization of larger, more mature firms. One of the results is a change in company structure,

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<sup>5</sup>. For references supporting and contesting his claims see Turok and Richardson, 1991, Giaoutzi et.al, 1989, Fischer, 1989 and Keeble and Wever, 1986.

<sup>6</sup>. For references see Bennet and Krebs, 1991, Turok and Richardson, 1991, Giaoutzi et.al, 1989, Fischer, 1989.

<sup>7</sup>. For references see Keeble and Wever, 1986, Mason, 1989, Fischer, 1989, and Shutt and Whittington, 1987.

<sup>8</sup>. For references see Keeble and Wever, 1986, Mason, 1989, Fischer, 1989, and Shutt and Whittington, 1987.

<sup>9</sup>. UK studies show that 10% of new firms are started by people who were previously unemployed (Keeble and Wever, 1986).

creating new openings in the form of market niches and subcontracting opportunities (Fischer, 1989). This has been observed in Israel, by a marked shift in the employment share from large to small and medium sized firms.

Theories of technical change<sup>10</sup> explain the proliferation of small businesses as conforming to a Kondratiev-type theory, whereby long waves of economic change result from the development of major new technologies<sup>11</sup>. It has been suggested that current micro- electronic innovations may be heralding the advent of the 5th Kondratiev cycle (Keeble and Wever, 1986). These new technologies have created new production processes and markets, particularly suitable to the local flexibility and awareness of small firms (Mason, 1989).

Another contesting theory is income growth theory. It is proposed that the increase in real household income has led to an increase in the consumer demand for a wider variety of quality products. This is translated as an increase in demand for more customized goods, better suited to the small firm sector, as they are flexible enough to produce small quantities of varying goods<sup>12</sup>.

Not unrelated to the above theories is the claim that an increase in market uncertainty, rapid rates of technological innovation and fluctuating demand, has caused large firms to adopt fragmentation strategies. This involves an increase in decentralization of control into smaller units, and a tendency to subcontract and adopt venture financing as a means to rationalize production and innovation activities (Shutt and Whittington, 1987).

Contemporary policy targets small firms as a means of achieving and sustaining growth and economic and social stability. As has been described in the local economic development model above<sup>13</sup>, small firms are the seed-corn of the growth of larger firms, they attract and retain local sources of investment and technology, and provide a means of the extension of local control over the local economy. Small firms are

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<sup>10</sup>. See Keeble and Wever, 1986 and Mason, 1989.

<sup>11</sup>. Based on Schumpeterian cycles of invention, innovation and diffusion, radical technological innovation is seen to be followed by longer periods of innovation exploitation until there is market swamping and eventual decline, leading to a period of recession until the next technical innovation occurs.

<sup>12</sup>. See Keeble and Wever, 1986 and Brusco, 1982.

<sup>13</sup>. See also Turok and Richardson, 1991, and Giaoutzi et.al, 1989.



credited with being significant sources of employment, output, a source of competition to larger firms, and a source of innovation and diversity. These points raise some controversy, however, as the literature presents a variety of studies both supporting and contesting these implicit assumptions of contemporary policy <sup>14</sup> .

Often, small firms are seen as a means of increasing the socio- economic mobility of vulnerable groups such as the unemployed, the less-skilled and minority groups (Allen and Truman, 1991, and Turok and Richardson, 1991). As well as the growth potential, one principle aim of small firm policy in Israel is to encourage the economic absorption of new immigrants in the Israeli economy. In line with entrepreneurial theory, policy proponents consider small firms to be a source of innovation <sup>15</sup>, and to be more flexible and dynamic than larger firms. It is suggested that they are more responsive to changes in demand, prices and technology, and generally quicker to adapt to changes in economic conditions. Again, the results of studies vary, suggesting varying degrees of significance of the innovative role of small firms.

### **1.3. Local Economic Development in Practice**

In the 1980's there were major developments of local economic development projects in most developed countries. Such policy is characterized by the decentralization of control of policy and the increasing privatization of traditionally public activity. The trends described in the international literature not far removed from the Israeli scenario. In Israel there has been a change in local economic development policy from the control of local development by formal central government criteria and government action, to the encouragement of local activities (Razin, 1990).

A significant difference between Israel and the international literature is the role of philanthropy in Israel, which seemingly adopts the role of private involvement in other countries. The philanthropic bodies involved in the Israeli local economic development sector have played a key role in setting policy development in motion, often initiating project development. As they attempt to reduce their involvement the potential of private involvement may become more important in Israel also.

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<sup>14</sup>. For references see Turok and Richardson, 1991, Frank, Miall and Rees, 1984, Giaoutzi et.al, 1989, Curran and Blackburn (Intro.), 1991, Maillat, 1989, Bennet and Krebs, 1991, and Keeble and Wever, 1986.

<sup>15</sup>. For references see Turok and Richardson, 1991, Frank, Miall and Rees, 1984, Giaoutzi et.al, 1989, Fischer, 1989, and Keeble and Wever, 1986.

Policy areas of local economic development are presented as corresponding to three principle areas: Resources may be allocated to invest in human resources or human capital, physical or site based development, or institutional development, in the form of information services and other support infrastructure. Efforts for the promotion of entrepreneurship are presented in the following section may be seen to relate mostly to institutional initiatives. Indeed, the efforts for the promotion of entrepreneurship are mostly service based initiatives involving subsidised advice and information and financial assistance. This may also be seen to apply to Israel, where the efforts to promote entrepreneurship focus mostly on small business development centers and small business loan funds.

An effective evaluation of local economic development policy, however, is lacking; including policy for the promotion of entrepreneurship. Evaluation efforts are needed to determine the effectiveness of individual projects and to secure efficient overall institutional development. It has been observed that "the motivation of bureaucrats is to maximize the size of their bureaux", in their search for power and prestige (Storey, 1990). In this respect, evaluation is needed to ensure that the power motivation of those implementing initiatives should be maintained within the boundaries of efficient initiative development. Research on the evaluation of local economic development policies in developed countries is scarce. In principle, the evaluation of a regional policy must consider both economic and social effects, and account for local resource constraints. In the face of such evaluation difficulties, uncertainty surrounds the choice of appropriate methods, and criteria (Turok, 1989 and Swales, 1989).

### 1.3.1. The Contemporary Role of Government

In free market mixed economies the primarily role of government may be seen to be the correction of market inefficiencies and the pursuant increase in social benefit from local resources. In this way, government may intervene in local economies to redistribute labour, capital and institutions and, through institutional development, to influence the incidence of resource costs and benefits from economic activity.

The current economic structural change in Western economies suggests the transition from a managerial to an entrepreneurial society (Drucker, 1984). This may be seen in the private sector breakdown of large managerial structures, to create

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profusion of smaller firms. In the public sector, contemporary planning approaches have evolved to replaced the regulation of development with the promotion of development (Brownhill, 1990 and Fainstein, 1991).

Throughout Western economies, different local contexts have given rise to specific local development problems, each requiring a unique approach. The new promotional focus to planning, together with cutbacks in public spending following the financial crisis of the 1970s, has led local authorities to encourage the involvement of non-government<sup>16</sup>, primarily private sector funds (Fainstein, 1991, Brownhill, 1990, Keating and Krumholz, 1991 and Keating, 1993). Participation often takes place within the framework of a public-private partnership arrangement, subject to formal or informal agreement between the partners to work together towards a specified economic development objective (Bennet and Krebs, 1991). Agreements differ greatly with regards to the resources involved, the scope of partnership projects, the distribution of decision making power between partners and the distribution of costs and benefits.

Within the framework of projects for the promotion of entrepreneurship there are many examples of public-private partnership. Indeed, in the United States and Britain most of the projects encouraging small business activity involve some involvement of private resources, whether it be in the form of secondments or the public subsidy of private sector provision. In Israel, the typical administration framework has been a partnership of public and philanthropic concerns. To date, the exploitation of private interests is a relatively unexplored potential.

### 1.3.2. Local Economic Development Initiatives

Local economic development projects are formed in accordance with the local organizational framework. The initiatives chosen will determine how local resources are to be employed. There are human, physical and institutional resources available to the local economy. Although many initiatives may be seen to influence one or more of these resources, the focus of many contemporary initiatives is to facilitate economic activity through institutional development. In this respect, it is not only the efficiency and the number of economic actors within a local area that is of concern, but also the networks of communication and cooperation within a community.

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<sup>16</sup>. The case of Israel is somewhat different, in that philanthropic sources play a significant role in local economic development. This will be further discussed in following sections of this research.

The development of human resources refers to the local population active in the development process. Such a project focus relates to investments in the effectiveness of human capital in terms of the quantity and quality of different types of labor. The four main areas for initiatives are education, vocational training, self-employment training, and management training (Bennet and Krebs, 1991). It is clearly important that education and training are suitable for the development of local industry; to ensure the efficient employment of the local human capital available. A locally oriented, and decentralized training system structure attempts to avoid the bureaucracy and inflexibility of centralized systems (Evans, 1991). A mismatch or inadequacies in training and/or education will influence the quality of employment offered to local residents, levels of local unemployment, and the development of local firms.

Initiatives may be required to overcome physical and/or social constraints to development. There are two basic approaches to physical development; the development of sites and land as an unexploited resource, and the regeneration of populated but deteriorating areas. The tools commonly used include; land-banking, the acquisition and improvement of parcels of land; physical infrastructure development to encourage industrial and commercial development; the provision of speculative "shell" buildings; zoning policy; the simplification of bureaucratic procedures; tourism planning; town-scaping, whereby the town is developed along a community theme; shop steadying as a means to revitalize vacant properties and develop business, housing and neighbourhood improvements; and the provision or enhancement of community facilities (Blakely, 1989).

The development of local institutions often facilitates the development of physical and human resources. For example, institutions constitute the infrastructure by which education is provided and include the administrative structure and plans governing physical development. Due to the influence of institutions on the environment of economic activity and exchange, institutional development may be seen as crucial to business development. The host of initiatives presented in the following section may be seen as the development of institutions to reduce the transaction costs restricting entrepreneurship and business development.

The development of entrepreneurship through the growth of small businesses and self-employment has become an increasingly important part of local economic development policy. Future growth depends on the dynamic creation of new firms as it does on the safeguarding of existing jobs and investment. The focus on initiatives for the promotion of small firms is therefore natural for local economic development policy. It is also the small firm sector that suffers some major market failures,

resulting in a lack of access to adequate forms of finance, their enduring proportionately higher levels of transaction costs than larger firms and suffering a lack of access to information and professional expertise<sup>17</sup>. Consequently, many local economic development initiatives are directed at small firms, in an attempt to bridge these gaps and overcome market failures.

As has been stressed above, there is a need for the development of means with which to evaluate local economic development policy. Of those evaluations of local economic development initiatives conducted, a large proportion involve empirical measures of cost effectiveness. Measures such as 'cost per (net) job' are common; which facilitate a comparison of different initiatives (Sazama, 1970 and Howland, 1990). As a result, this measure of employment impacts has been widely used by policy makers as a key performance indicator and is often seen as an appropriate performance measure in instances where employment creation is a principle initiative.

There are serious practical problems in using cost per job as a performance measure to compare initiatives. The identification of jobs created as a specific result of the programme (Martin, 1989, Willis, 1985 and Howland, 1990), allowances for the comparability of different types of employment (Felsenstein et al, 1991 and Swales, 1989), issues of project additionality and possible displacement effects are often neglected or unclear in cost per job evaluations<sup>18</sup>; as are the multiplier and linkage effects of jobs created (Swales, 1989 and Wren, 1987). Furthermore, 'cost per job' measures may overlooked effects such as employment retention, and an increase in the operational efficiency of firms assisted. Cost per job can not be seen to account for the multitude of costs and benefits affected by local economic development initiatives, and does nothing to account for the local factors influencing project success (Krmeneč, 1990 and Turok, 1989).

From a local economic development perspective projects should address the needs of the local population, through the mobilization of local resources and the expansion of local development capacity. In this respect, policy evaluation is relative and must take into account the limitations and potentials to development inherent in the local population. Much policy is facilitative, and supports and enables change. Thus, the various local policies in operation, and the local resources available should be an

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<sup>17</sup>. See Timmons et.al., 1977, Fischer, 1989, Storey, 1981, Harrison and Mason, 1989, Bennet and Krebs, 1991, Levitsky and Prasad, 1987, Binks, 1991, Lloyd and Mason, 1984 and Chrisman and Leslie, 1989.

<sup>18</sup>. The objective of "additionality" is especially significant in the case of financial initiatives, whereby public money must not be seen to displace private funds (Fisher, 1988 and Wolkoff, 1990).

integral part of any project evaluation (Turok, 1989 and Storey, 1990). We would expect institutional development to reduce the costs of those economic activities targeted for economic development. An increase in the efficiency of local resource employment, including the effective coordination of local economic development projects, is to be expected.

#### **1.4. Efforts for the Promotion of Entrepreneurship**

The promotion of entrepreneurship includes the development of institutions to improve access to the knowledge influencing business decisions and access to finance. Institutional development often promotes human and physical resource development whereby; entrepreneurial skills are developed through various educational programs and the physical environment is enhanced to encourage entrepreneurial activity in projects such as technical and business incubation centers.

Projects directed at the support and development of businesses are concerned with the entrepreneurship, innovation and management expertise that can be brought to bear on local economic development (Bennet and Krebs, 1991). The chief aspects of support may be considered to be; a reduction in the costs of accessing information and advice through the provision of business support; financial initiatives, developing institutions to improve the access of small firms to finance; and the provision of technology centers and business parks, in an attempt to facilitate local network development and the propagation of innovation in the local economy, whilst also providing small firms with access to physical resources and business services. This section presents the main project areas supporting entrepreneurship, with a specific focus on business support and financial initiatives, as they are the principle areas researched in the overall research project.

##### **1.4.1. Business Support**

The targeting of initiatives to reduce the costs of information and the transaction costs involved in the start up and expansion of small firms includes the provision of advice, supporting information and other services. These means may be seen to enhance the quality of decision making, whilst reducing the transaction costs involved in the many stages of the start up and on-going success of small firms. In pursuit of these goals, Western economies have witnessed a rapid growth in business advisory

services in recent years (Bennet and Krebs, 1991 and Ashcroft et al, 1991). Those providing these information and support services include small business development centres (SBDCs), chambers of commerce, local authorities, private consultants, and other entrepreneurs and small business owners.

In the face of often prohibitively high costs involved in seeking advice from private consultants, or the search time involved in locating fellow entrepreneurs, support centres provide the necessary guidance and information for the support of small businesses, at a reasonable or no cost (Pelham, 1985). The centres are seen to be a cost effective means of entrepreneurial support. Indeed, the provision of free or inexpensive business advice, counseling and information to small firms and potential new businesses has been strongly supported in Britain by the creation of a national network of some 300 centres<sup>19</sup> (Mason, 1989).

Centres normally provide counseling and consulting services, with an aim to raise the performance and potential of new firms, and to encourage a higher start up rate. These services are often linked with training initiatives with a strong emphasis on management training. Other initiatives provide low cost small premises, including certain in-house centralized services such as photocopying and accounting (Blakely, 1989). The new one stop shops<sup>20</sup> are an attempt to reduce information search costs still further by concentrating services in an information center designed to serve as a key contact point for businesses of all kinds, and to reduce the customer confusion caused by the profusion of agencies and services available.

Regarding the impact of services supplied by local enterprise agencies and SBDCs; Bennet and Krebs (1991) state that those businesses assisted by enterprise agencies in Britain have been found to have a higher rate of survival<sup>21</sup>, compared to other small firms. Ashcroft et. al. (1991) measured the relationship between new firm start-ups and the concentration of agencies for the promotion of entrepreneurship per million population, and found the relationship to be positive, although not at the 5% significance level. The relationship between start-ups and the number of enterprise agencies with access to their own capital funds to assist business start-up per million

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<sup>19</sup>. The centres include private sector initiatives such as the Local Economic Corporations; Training and Enterprise Councils which are publicly induced private sector initiatives, and (public) local authority sponsored agencies.

<sup>20</sup>. The new "one stop shops" were launched by the UK Government Department of Trade and Industry, to be operational as of April 1993.

<sup>21</sup>. Assisted firms are presented as having a failure rate of 1: 6 as opposed to 1: 3 Bennet and Krebs, 1991.

population was found to be positive and closer to the 5% significance level. The crudeness of the measurements made <sup>22</sup> may be partly responsible for the lack of concrete conclusions, however this preliminary study strongly suggests that enterprise agencies do positively influence firm start-up (Ashcroft et al, 1991).

Haughton (1993) reviews the local government and agency evaluations of the operations of the small business development centres and other similar support, in Britain. The overall development of the infrastructure of small firm support in Britain is criticized for the poor integration of the infrastructure, the pro-active or 'fire-fighting' nature of activities, the poor quality of staffing of the projects, and poor objective setting. An improvement in project focus through specialization and improved coordination between different projects is strongly recommended. These criticisms should serve as a warning for the Israeli support sector.

Indeed, in Israel, a study conducted by Simmons (1993) indicates a lack of clear operational objectives for both the sample of loan fund agencies and the sample of small business development centres studied. Although the small business development centres and the small business loan funds do cooperate to varying degrees, there is evidence of inefficiencies and conflict within the support system. Furthermore, research by Czamanski, Gomelski and Simmons (1994) present results that indicate a lack of understanding of potential immigrant entrepreneurs of the operations and objectives of the support infrastructure. Nevertheless, at a relatively early stage of support development, Israel is in a far better position to secure the effective development of policy where others have failed.

Rocha and Khan (1984) studied the frequency of different types of advice obtained by 52 small businesses from SBDCs in the US. Of the small number of firms studied, the most common area of advice was that of accounting and finance. This may be expected due to the recognised fact that the managers of many small firms do not appreciate the critical importance of the use and maintenance of accurate and complete records. The next most common area of advice was marketing and advertising, mostly focusing on the problems caused by a failure to identify a target market, and a lack of advertising (Rocha and Khan, 1984). The next most common category was personnel and administration. The development and training of

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<sup>22</sup>. Much of the work of enterprise agencies involves the provision of advice and counselling. To measure the effectiveness of such initiatives a simple spatial concentration of services may not be sufficient (Ashcroft et al, 1991). Any evaluation should take into account the quality of the work they do, which may be difficult to ascertain in practice.



personnel is a typically neglected area of small firms management. In terms of the firms' operations, the cause of the problems identified was predominantly inefficient inventory control, due to poor accounting. The other category included the need for strategic planning, due to a lack of long range goals. It was observed that many owner-managers of small firms are so occupied with day to day issues, that they fail to plan the long term development of the firm (Rocha and Khan, 1984).

Chrisman and Leslie (1989) studied the relationship between the type of assistance provided by SBDCs and the change in the performance of the clients receiving the assistance, in the US. According to their results, "established small business clients appear to benefit more from administrative and operating assistance than they do from strategic assistance" (Chrisman and Leslie, 1989). An extensive review of the literature showed that small firms benefit most from assistance when they conduct strategic planning with the help of outsiders. The relative difference in performance may relate to the difficulty in accepting strategic assistance. The quality of assistance and the perception of clients as to the importance of advice given obviously effect results. There may be some need for education on these subjects and investigation into the most effective means of providing different types of assistance.

Pelham (1985) conducted an analysis of client evaluation of SBDC services received by firms in the US. The study indicated a high evaluation of services received relative to other consultancy services, and indicates a positive influence on sales and job creation as a result of services received (Pelham, 1985). The results imply that the short term benefits of the services was a reduction in costs, as opposed to an increase in sales. Three areas of assistance were examined; administration, operations and strategic planning. The small businesses reviewed appeared to benefit most from administrative and operating assistance, although those clients receiving comprehensive assistance in all three areas out-performed those who received advice in only one or two of the classification groups. This, again, suggests difficulties in accepting strategic advice. Results indicated a relative improvement in firm performance in proportion with the number of hours counselling received, particularly hours spent on planning.

The input of management counselling to firm performance, therefore, does not just depend on the value of the training or the information and advice itself, but also the impact the centres may have to create an "impetus for the owner to thoroughly seek information, systematically evaluate alternatives, and formally conduct planning" (Pelham, 1985). It is important that the centres instil in their clients an awareness of the correct procedure for information gathering, processing and decision making. It is the lack of these activities that is generally regarded as the primary cause of business

failure. As Chrisman and Leslie observed (1989), it is difficult to ascertain the long term effects of services provided. The lesser success related with strategic advice may relate to the perception of this area of action as less significant, by the small firm owners seeking advice (Chrisman and Leslie, 1989). The non- acceptance of recommendations may be due to the perception that their implementation would be too risky or costly, but may also relate to a lack of faith in the advice given (Rocha and Khan, 1984).

#### 1.4.2. Technology Centres and Business Parks

Entrepreneurial initiative and business development are encouraged, also, by a number of site- based initiatives, focusing various incentives and services on specific development sites and their networks of operation. On a small scale, incentives may be provided in the form of conveniently located low priced factory units and workshops. In Britain, such projects are often run on the initiative of local authorities, and a variety of public and (public-induced) private parties (Mason, 1989).

Initiatives may also be directed at the promotion of research and development, to assist communities in the development of targeted technological sectors and activities. The two main areas focused are invention and commercialization. Examples of initiatives in this area include incubation centres, which provide a supporting environment to an inventor during the crucial period between the conception of a new idea and its development to the point that it may be commercialized and be taken to the venture capitalist. Incubation centres, or technology development centres provide low rent working places and are usually located alongside educational institutions which may provide the small inventors with equipment, facilities, and assistance in preparing business plans and approaching venture capitalists.

On a larger scale<sup>23</sup>, research parks are larger commercial sites, in which the primary activity of the occupants is basic or applied research, or new product or process development, with the objective of generating employment and entrepreneurial activity. The parks are often located within public or private universities or affiliated with research or academic institutions (Lugar and Goldstein, 1990).

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<sup>23</sup> In the US in recent years, state and local governments have, directly and through public universities, invested millions of dollars in research parks. One third of the 300 American research parks contain incubator space, which is low compared to many European parks(Lugar and Goldstein, 1990).

Other initiatives include technology centres , which are principally university based and mainly serve to coordinate technological development and to assist in the management of technological transfer. Technology centres and incubators may themselves be located within a research park (Luger and Goldstein, 1990).

Business parks and business incubators are sites of various scales, with in-house commercial activities, as opposed to research and development activities. Business incubators provide low cost work space and in-house business facilities and management advice and information, to create a nurturing environment for firms in the early stages of start-up. Business and technical parks, on a larger scale, provide a similar supportive environment (Blakely, 1989).

Enterprise zones are typical of policy measures to promote local economic development by improving the location advantage of the local area. They are based on the assumption, as are many other initiatives to promote the small firm sector, that enterprise is restricted by public sector controls (Talbot, 1988). Enterprise zones are defined areas where planning controls are minimized and attractive financial incentives are offered to prospective developers and occupants (Blakely, 1989).

Some of the projects more easily attract private support than others. A general recommendation from the literature is that local resources should be exploited, through actively linking the activities of educational and other research institutions, and more joint efforts should be formed for common research and new product commercialization (Blakely, 1989).

#### 1.4.3. Financial Initiatives

"It has become almost commonplace to identify the difficulty in obtaining external finance on adequate terms as one of the most significant constraints on both the formation and... the growth of new and small businesses" (Harrison and Mason, 1986). It is a well known fact that a majority of entrepreneurs use personal savings or funds from family and friends to embark upon new business ventures (Timmons et al, 1977, Lubar, 1990 and Blakely, 1989). External funds serve to fill the gap between an entrepreneur's personal funds and the value of the capital needed to form or develop a business venture. The lack of external funds used for start up capital is representative

of both the reluctance of entrepreneurs to seek external finance, and a lack of supply of suitable capital <sup>24</sup>.

Borrowers must balance the amount of debt and equity used to finance their venture. Equity, unlike debt, has the advantage of not requiring payment early in the life of a venture. Nevertheless, a borrower must be prepared to exchange part ownership of the venture in exchange for equity funds. There are two main characteristics of equity capital; namely the long term involvement of patient money on the part of the investor, and generally some form of hands-on involvement in the management of the business, although the extent of the involvement on the part of the investor may vary considerably. The nature of equity or venture capitalism is inherently risky, and as such demands very high rates of return (Martin, 1989)

Debt financing is characterized by the amount of security (or collateral) required by the lending institution. In addition to the interest charged on a loan, security is normally required to reduce the risk of the loan (Hill and Shelley, 1990). This security may take the form of bank deposits, or capital holding such as machinery or property, and is generally proportional to the sum borrowed.

#### Debt Initiatives

Loan guarantee schemes are often seen as an attractive tool to encourage small business development, especially in developing countries where the non availability of finance has proved to be a serious constraint on the development of the small firm sector. Evidence from developed countries suggests that the government, the business community, and the banking system must all take some part of the risk (Levitsky and Prasad, 1987). Loan guarantee schemes serve to cover some proportion of the losses incurred when borrowers default on loans. The risk of default is shared between the lender and guarantee organization. The aim is to encourage financial institutions to lend to small businesses that have potentially successful venture ideas, but which cannot secure a regular loan due to a lack of collateral or a suitable business history (Levitsky and Prasad, 1987).

Similar loan guarantee schemes have been developed in the US, the Netherlands and Britain, where financial institutions are believed to overestimate the risks of lending to small firms, and especially new firms. The justification for

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<sup>24</sup>. For the extensive references discussing the particulars of this issue see Harrison and Mason (1986) and (1989), Storey (1981), Levitsky and Prasad (1987), Fisher (1988), Martin (1989), and Bennet and Krebs (1991).

programmes is the clearly identifiable public benefits from the promotion of small firms, and specifically the creation of jobs (Storey, 1981 and Harrison and Mason, 1986). Generally, many schemes put limits on the size of firms able to benefit from loan guarantee schemes, to attempt to limit the benefit of the loans to small businesses only (Levitsky and Prasad, 1987).

Low interest loans<sup>25</sup> may be offered as an incentive to attract business establishments to certain locations, or to encourage the start-up or retention of businesses. This means of inducing local economic development is a frequently used incentive offered in the US (Howland, 1990). The loaning of money at lower than market rates, may be seen as a subsidy to business. This allocation of public money must ensure the additionality of loans and secure that these subsidies increase local access to credit (Howland, 1990).

Revolving loan funds are a variation on the above theme. Often a more locally oriented attempt to bridge capital gaps in local financial markets, revolving loan funds involve a fixed sum of money allocated for under-served members of the local community; whether it be the local small firm sector or minority groups. An initial capital fund is lent out to businesses, and is replenished through loan repayments. The objective of maintaining the fund for the benefit of future borrowers must be compromised against providing favourable loan terms to facilitate the current take up of loans (Walker, 1990).

In the US, many federal sources enable the capitalization of municipal revolving funds<sup>26</sup>. In such cases the municipal authorities are authorized to establish a loan fund from these initial sources, to review and administer applications for the loans offered, and to allocate loans according to pre-established criteria. The funds may be created using solely federal sources, or these sources may be "matched" by other non-public sources and thus may involve the formation of a public-private partnership (Felsenstein et al, 1991).

### Equity Initiatives

The area of equity capital support is almost non-existent in Israel, as regards the small and medium firm sector. In light of this, the different efforts in other countries

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<sup>25</sup>. In 1983 20 US states were found to offer low interest loans to private firms (Howland, 1990).

<sup>26</sup>. Initial capital sums may be obtained from sources such as the Economic Development Administration, the Department of housing and Urban Growth, the Urban Development Action Group or the Community Development Block Grants (CDBG) (Felsenstein et al, 1991).

should be considered with interest, and their potential in Israel evaluated. In light of the increased risk of failure associated with increased debt-equity ratios, it should be considered as to whether a focus on debt capital (as has occurred in Israel) may actually have an adverse effect on firm success.

The venture capital industry in the US dates back almost thirty years, and largely consists of private firms and quasi-public Small Business Investment Corporations (SBICs)<sup>27</sup>. Although the SBIC equity finance role is limited, they represent approximately 17% of the formal venture capital market in the United States (Harrison and Mason, 1989 and Timmons et al, 1977). American state run venture funds also provide equity funds to finance small businesses in start-up or early growth stages<sup>28</sup>, with the addition of local investment companies providing local investment funds for local firms (Blakey, 1989).

The venture capital market in Britain is very much a phenomenon of the 1980s, whereby a rapid expansion in the provision of finance for new and small firms was observed. This expansion coincided with various government incentives to increase the flow of equity and capital from financial institutions to new and especially small businesses<sup>29</sup>. The Business Expansion Scheme was introduced with the aim of increasing the flow of private equity finance in the UK. The scheme provides tax relief for new equity investments of individuals in unquoted UK trading companies with the aim of encouraging new and expanded activity in the small firms sector (Harrison and Mason, 1989, Mason, 1989).

The banks also play a role in equity participation. In Germany, bank participation in corporate investment has been a major vehicle for economic development, whereas in Britain the banks have been less involved and traditionally have not participated in equity holdings. Despite these efforts, it is difficult for banks to deal adequately with small start-ups and self-employment, even in Germany with her wealth of experience. In recognition of these difficulties specialist small business loan schemes, enterprise agencies and other bodies have increasingly developed local

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<sup>27</sup>. The SBICs are authorised by the Small Business Association in the 1958 Small Business Act to provide debt and equity finance (Leinbach and Amrhein, 1987 and Lubar, 1990).

<sup>28</sup>. These funds are generally organised as quasi-public, non-profit corporations or public authorities. Alternatively, state venture capital funds may also be funded by the Community Development Finance Corporations, who provide venture funds directed at economically distressed areas, to be administered by local community development corporations (Fisher, 1988).

<sup>29</sup>. The Business Start-Up Scheme was set up in 1981 and later replaced by the 1983 Business Expansion Scheme, according to which individuals are allowed to invest in young unquoted companies will full tax relief on the amount invested (Martin, 1989 and Harrison and Mason, 1989).

partnerships with banks and other financial institutions. These partnerships can be seen to reduce risks by links, loans or equity participation in business after-care and the provision of advisory services (Bennet and Krebs, 1991).

Initiatives to increase small equity capital should not neglect the informal equity finance market. Local venture initiatives may attract local individuals seeking investment opportunities in local companies. These investors, or business angels, constitute the most important and least understood external source of capital for small firms (Gaston, 1990). Business Angels finance early-stage and growth firms that are too small for professional venture capital or public market attention. In the US the informal equity market, constitutes the largest supply of external risk capital. As the name suggests, informal capital sources tend to come from an informal connections and are very much the product of a hit and miss process of acquaintances through which Business Angels and entrepreneurs may make their connections (Gaston, 1990).

There may be a great potential to be exploited by the coordination of local investment companies. In Britain, the Local Investment Networking Company (LINC) has been run in Britain on a local basis for the last 9 years and recently has been launched nationwide. The LINC database matches small businesses seeking capital and management assistance with the most suitable investors wanting to invest and possibly work in small firms. Linkage is made in terms of investment size, type of firm, geographical area and investor expertise.

Other financial incentives include programmes such as the Enterprise Allowance Scheme in Britain, which provides temporary payment in lieu of unemployment benefit to encourage unemployed people to start up their own businesses (Mason, 1989).

## **II. THE ENTREPRENEURIAL PROCESS**

### **2.1. Introduction**

At the current time in Israel there has been an increase in the provision of small firm assistance and the development of new organizations and forms of support. A full understanding and appreciation of the objectives and means of entrepreneurial support is impossible without knowledge of the processes, motivations and problems typically encountered by entrepreneurs in the small firm sector. In this respect, the need for policy evaluation and improvements in the targeting and effectiveness of support require that professionals in the field have a firm grasp on the needs and potentials of local populations. Whereas this section presents the theory and literature behind the support of small firms, the following section focuses more specifically on the entrepreneurial potential and problems of immigrant populations.

The theoretical background to entrepreneurial motivation provides us with common entrepreneurial characteristics and the factors influencing entrepreneurial decisions. Other contributions include factors influencing the success and failure of entrepreneurial endeavors in contemporary economic environments. Practical implications from this review include the application of theory to the Israeli system of entrepreneurial support to gain an insight into the entrepreneurial problems and potentials specific to the Israeli context. Of particular interest is the implications of the theory as regards the entrepreneurial activities of the immigrant population from the former Soviet Union.

### **2.1. The Nature of Entrepreneurship**

The classical literature on entrepreneurial functions and the relatively recent literature investigating the problems of the small firm sector provide a general framework for understanding the Israeli context. With a view to the creation of employment and the economic absorption of the immigrant human capital potential, the phenomenon of the development of entrepreneurial activity in the immigrant community is of significant importance. The large group of immigrants of Soviet origins, numbering around 800000 has exhibited considerable entrepreneurial activity. The result has been the development of an immigrant economy, based on self-employment.



Schumpeter presented the entrepreneur as a dynamic and pro-active force, contributing to economic development by disturbing economic equilibrium through innovation (Schumpeter, 1939). Zeigler (1985) applied Schumpeter's theory to describe the process of innovation as including not only the entrepreneurial function, but also a stage of innovation diffusion by imitating firms. This approach may be considered together with Liebenstein's X-efficiency paradigm (1979, 1978), which presents the entrepreneurial role as filling market gaps and correcting market imperfections. We may conclude that, in a world of imperfect information and inefficiencies, it would require entrepreneurial skills not only to innovate but also to access the "special information" needed to diffuse innovation. We, thus, define an entrepreneur as the owner-manager of any economically viable business<sup>30</sup>.

This working definition corresponds to the following presentation of the entrepreneurial process and problems of small firms. Despite the absence of a well defined entrepreneurial population in the literature, it may be discerned that most contemporary writers on the subject of entrepreneurship would consider the owner-manager of a business to be an entrepreneur- but not a founder if he does not manage the venture (Brockhaus, 1982). Definitions of entrepreneurship cover the nature of entrepreneurial activity, or entrepreneurial acts. Consequently, it may be understood that an entrepreneur is an individual with a propensity for entrepreneurial behaviour, Although no one can be engaged in purely entrepreneurial activities all the time and, as such, other compatible roles must be recognized (O'Farrel, 1986).

The most common definition of small firm is a firm with up to 200 employees, whilst medium is from 200 to 499 employees, and large indicates more than 500 employees. Within the small category some states in Europe collect information on micro-business, i.e. those with 0 to 9 employees<sup>31</sup> In terms of numbers of companies registered these micro-business account for most of the growth that occurred in the 1980s (Leighton and Felstead, 1992).

The small firm sector has already been presented as synonymous with entrepreneurship in the model of local economic development in section. The concept of development 'from below', focusing on the generation of local entrepreneurship and the build up of local capacity, would quite naturally choose to assist the development of

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<sup>30</sup>. This definition is in line with the direction of the current research, and is by no means a general definition. Entrepreneurial activity within large organizations in both the public and private sector is strongly acknowledged, as is entrepreneurial initiative pertaining to organizational change and institutional development (Williamson, 1983b; Drucker, 1985 and Arrow, 1983).

<sup>31</sup>. According to statistical data of the European Common Market (Allen and Truman, 1993).

the local small firm sector. Thus, the owner-managers of local small businesses are targeted as the local entrepreneurial population.

Firms, especially small firms, as is widely known, do not have an infinite life. Apart from large companies like Exxon or IBM, which are long lived, most firms have a very short life. Altman (1971, 1983) has documented the phenomenon of firm exit and the pattern of firm failure. Although Roberts (1972) has found that high technology firms appear to have a low disturbance rate of only 20% after five years, empirically, firms failure peaks after four years of existence. There is an initial two-year period characterized by a few exits which is followed by a massive exodus in the next two or three years<sup>32</sup>. What is the failure rate among existing firms? More than 60% of firms will have failed or exited the market within five years of creation and almost 80% will have done so within ten years of creation (Dunne et al., 1989; Shaper and Giglierano, 1980).

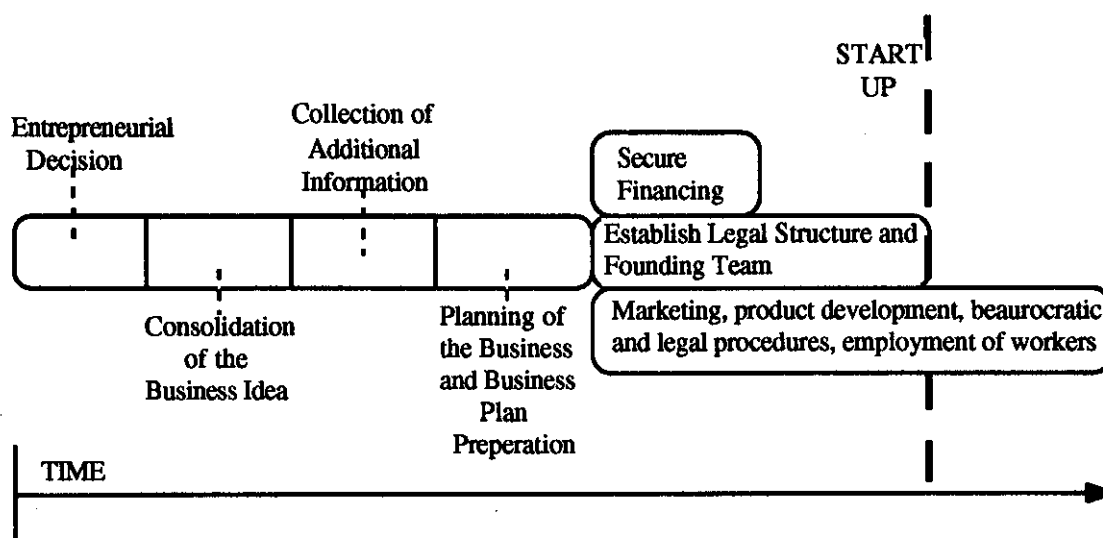
Studies have shown that the reasons for failure include the influence of environmental factors external to the firm, such as a decrease in demand for the firm's product or service, recession and increasing interest rates (Chrisman and Leslie, 1989). The most common reasons for failure, however, appear to be; access to capital which, due to insufficient finances, causes equipment and marketing to be often below the standard necessary for effective competition; a lack of managerial knowledge, due to a lack of relevant experience or access to adequate managerial resources; public administration problems and problems with adequate labour recruitment (Lloyd and Mason, 1984, Chrisman and Leslie, 1989).

Entrepreneurial or small firm problems may be related to the various stages of the development of the business. Figure 3 below describes the start-up process of a new firm as the consecutive and simultaneous completion of a number of distinct tasks. The process presented is based on start-up processes described by Timmons et al. (1977) and Fischer (1989). In reality, a number of permutations of the steps of the process described are possible. The process described is logical, and efficient, and serves adequately<sup>33</sup> to describe the bottle-necks and problems encountered in small firm creation.

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<sup>32</sup>. See: Toulouse J.-M. and Vallee L., (1993), in Birley and MacMillan, eds.

<sup>33</sup>. The process also fits well with the work procedures of the Israeli small business advice centres (MaTIs).



**Figure 3: The Entrepreneurial/ Small Firm Start- up Process**

The process begins with the individual's decision to become an entrepreneur, following which he/ she will consolidate a business idea. There then follows a period of information search and evaluation as the feasibility of the venture and the various details are determined. The process of business planning verifies all the decisions made, following which a business plan may be prepared as a means of securing financing. During the process of securing financing various legal and bureaucratic procedures must be followed, and organizational and promotional tasks completed prior to and following the start up of the venture.

From a policy perspective we would expect that a priority of an economy exhibiting very little business activity would be to induce an increase in the supply of entrepreneurial talents. In this respect, theories of the supply of entrepreneurship, and the means to stimulate such a supply, are of interest to policy makers.

Classical economics and the theory of the firm assume there is a constant exogenous factor in every society, namely the psychological drive for pecuniary gain. This leads to a highly inelastic (relatively fixed) supply of entrepreneurial services. A lack of entrepreneurial supply is, therefore, seen to be related to a variety of possible market imperfections influencing the function of demand for entrepreneurs (Kilby, 1971). At the level of the individual firm, the entrepreneurial concept may be related to the central decision making of a profit maximizing firm. Assuming that decisions are made with full relevant information, the introduction of innovations and price changes may be seen as no more than profit maximizing decisions, on the part of the

entrepreneur, in light of market openings (Kirzner, 1975). Entrepreneurial supply is, therefore, seen to relate to market conditions.

The profit maximizing theory of the behavior of the firm represent entrepreneurial activity as the product of maximization problems, perceived by a fixed quantity of entrepreneurs, in the light of objective information. In this way, an increase in entrepreneurship will be related to an outward shift in the demand function for entrepreneurship, thus increasing the market incentives for entrepreneurs. This suggests that policy should be directed at functions of demand such as the price of cooperating factors of production, the stock of known transferable technology, the level of managerial organization and consumer income (Kilby, 1971).

This approach, however, does not tackle the problem of a limited supply of entrepreneurship. If we question the assumption of fully available relevant information and other equilibrium assumptions such as impeded factor mobility, ignorance, heterogeneity, and restrictive institutions, the extraordinary qualities of the entrepreneur, and the possibly limited supply of such attributes become clear (Kilby, 1971). The nature of those individuals who are capable of making successful decisions in the face of such market imperfections, and the essence of entrepreneurship must be sought if economic activity is to be stimulated.

### **2.3. Entrepreneurial Motivation.**

The personality attributes, the nature of the social environment, and the local economic conditions influencing the supply of entrepreneurship are of extreme importance for the motivation and support of entrepreneurial activity. The theory in this area is of importance to agencies supporting entrepreneurship, to support and inform them in their function of both assisting entrepreneurs and in evaluating which projects have a reasonable chance of success.

#### **2.2.1. Psychological theory.**

Our search for this special individual, and his characteristics leads us to consider the "trait approach" to entrepreneurship, mostly covered by psychological theory. Theories in this area posit that the motivation for entrepreneurial activity for a certain range of incentives, is dependent on inner concerns of the individual, the development of which stimulates the supply of entrepreneurship. Psychological

elements influencing the supply of entrepreneurial talents have been cited by, amongst others, Schumpeter, McClelland, Hagen, and Rotter<sup>34</sup>.

Schumpeter began his writings on entrepreneurship in 1911, and subsequently presented the first dynamic concept of the entrepreneurial function. Influenced by Weber<sup>35</sup> Schumpeter envisioned the entrepreneur at the center of the economic development process. Schumpeter's entrepreneur was an individual occurring randomly in any ethnically homogeneous population, with specific characteristics including the intuition to anticipate events, the energy and will to overcome restrictive attitudes, and the capability to withstand social opposition (Kilby, 1971).

David McClelland's n-Achievement Motive (n Ach) is presented as a differentiating factor between entrepreneurs and the general population<sup>36</sup>. The development of n Ach was initially related to child rearing that stressed excellence, maternal warmth, self-reliance, training, and low father dominance (Kilby, 1971, McClelland and Winter, 1969). Persons with high n Ach are those who prefer to adopt personal responsibility for problem solving, who prefer to set goals, and achieve their goals by their own efforts. Such individuals also have a strong desire for a measure of task performance or feedback (Brockhaus, 1982). They have little interest in performing routine tasks, and are interested in situations of moderate risk where skill influences the outcome (Kilby, 1971). Achievement orientated behaviour is also believed to be stimulated by training programmes, in which a latent ideological need for achievement is aroused in adults (McClelland and Winter, 1969). The effectiveness of these training courses, however, is not conclusive (Brockhaus, 1982), and as is the case with many psychological trait based theories, the causality between n Ach and entrepreneurship is difficult to determine.

Associated with McClelland's n-Ach Theory, Rotter presented his "Locus of Control" Theory<sup>37</sup> by which individuals are described as "internals" or "externals". According to Rotter, individuals may perceive a situation to be within (internal) or beyond (external) their personal control and comprehension. Rotter relates n Ach to a belief in an internal locus of control, such that people with a high n Ach tend to believe in their own ability to control the outcome of their efforts (Brockhaus, 1982). An individual's locus of control will influence the perception of situations and the resultant

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<sup>34</sup>. For references see Brockhaus, 1982, Kilby, 1971, Gassa, 1982, and Shapero and Skol, 1982.

<sup>35</sup>. See also sociological characteristics of entrepreneurial activity.

<sup>36</sup>. For reference see: Brockhaus, 1982, Hornaday, 1982 and McClelland and Winter, 1969.

<sup>37</sup> See Ronen, 1983.

decisions concerning entrepreneurial activity. Responsible individuals, who does not believe that the outcome of a business venture is within their control will not subject themselves to the high penalties of failure, and will tend to avoid such risks. Some studies have suggested that this concept may infact be more promising than n Ach for the identification of entrepreneurial talents (Gasse, 1982), although research to date has yielded results that may more exactly be related to a general business orientation than specifically entrepreneurial qualities (Chell et al., 1991).

Hagen's "creative personality" also has much in common with McClelland's achievement theory. Hagen describes an individual characterized by a high need for achievement, order and autonomy. Hagen sees the entrepreneur as a creative problem solver, and the supply of entrepreneurship as being related to a withdrawal of status, that triggers a change in personality formation. Status withdrawal may be a consequence of such factors as displacement or migration to a new society. This causal factor is independent of the cultural and religious beliefs posited as the first causes of entrepreneurial psychological or social traits in other theories <sup>38</sup> (Kilby, 1971). However, Hagen's theory does not allow for the many cases where nobility, or persons with an elite social status, choose entrepreneurial pursuits (Sapero and Sokol, 1982).

### 2.3.2. Sociological Approach

The general sociological theory on entrepreneurial motivations provides the basis for much of the theory describing the entrepreneurial activity of immigrant groups. The sociological approach to the supply of entrepreneurship considers economic incentives to be part of a larger system of sanctions determined by social values and status hierarchy (Kilby, 1971). Weber influenced Schumpeter with his mention of innovation as the rationalization of every aspect of enterprise. Weber suggested that entrepreneurial motivation was stimulated by a set of exogenously adopted religious beliefs, namely the Protestant ethic, which were conducive to the work ethics and resource employment necessary for entrepreneurial activity. This approach to entrepreneurship as a social phenomena suggests a theory of entrepreneurial supply irrespective of personality type, although the relevance of the

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<sup>38</sup>Cultural and religious beliefs may be considered to exert a fundamental influence on the child raising practices, central to McClelland's n Ach theory, and similarly to the cultural and religious factors central to the sociological theories of Cochran or Weber.

Protestant ethic in other cultures, and their respective supplies of entrepreneurship is unclear (Kilby, 1971 and Shapero and Sokol, 1982).

Cochran extensively applied a theory of entrepreneurial supply based on cultural values, role expectations and social sanctions to comparisons of entrepreneurial activity of Latin American and North American populations. His belief was that the entrepreneur is not a deviant but a modal personality, shaped by child rearing practices and schooling (Kilby, 1971). His analytical structures were rooted in sociological and anthropological theory, and he proposed an on-going relationship between cultures and economic activity (Livesay, 1982).

Together with Cochran, Young stresses the importance of personality factors, although he does not share Cochran's view of entrepreneurial supply as a society-wide phenomenon. Young relates entrepreneurial supply to a theory of change, resulting from a society's incorporation of sub-groups. These sub-groups may become subsequently "reactive" if the group experiences low status recognition, and the denial of important social networks, and that they simultaneously possess a greater range of institutional resources than other social groups of the same social level. In this respect Young's theory is similar to that of Hagen's, with the exception that young does not predict sequential changes in personality (Kilby, 1971).

### 2.3.3. Push Factors

Those factors termed as "push factors" may be seen to relate to the local economic development context in which entrepreneurial activity takes place. This perspective highlights the need for local policy to focus on specific local problems and potentials.

The personal characteristics of an entrepreneur are seen to involve a high need for achievement, order and autonomy (Hagen, 1962). The supply of entrepreneurship is connected with problems of status. In addition to the theories above relating psychological and sociological factors to the supply of entrepreneurship, there are a number of push factors; effects of previous experience and precipitating events, that are seen to encourage the individual's adoption of an entrepreneurial role. These factors may be seen to influence the entrepreneurial decisions of potential entrepreneurs.

Job frustration or dissatisfaction may increase the individual's motivation for self employment, not only due to the desire to leave the current place of employment,

but also in influencing the individual to believe that the status of employee is unsatisfactory (Brockhaus, 1982). Lay-off or dismissal from previous places of work, discharge or graduation from educational or other institutions, or the process of immigration are considered to create displacement factors. These conditions are considered to influence the individual's occupational decision. For instance, the "displaced person" is forced to make a career choice in which the opportunity cost of selecting the self-employment option is less than that for an employed person (Brockhaus, 1982 and Shapero and Sokol, 1982).

Furthermore, an interest and motivation to start a new business is considered to be influenced by a potential entrepreneur's acquaintance with defacto entrepreneurs. Close contact with an entrepreneur-employer, or family members who have entrepreneurial experience may influence the occupational choice to embark upon entrepreneurial activity (Brockhaus, 1982 and Shapero and Sokol, 1982).

#### **2.4. Development of the Business Idea.**

The process of development of the business idea provides us with a continuum on which to locate the different stages of decision making and the various types of problems and barriers encountered by the entrepreneur. An appreciation of this process allows us to appreciate the function of the various initiatives of entrepreneurial support and their work methods.

The motivation factors leading to the decision to become an entrepreneur have already been discussed. The subsequent formation of the business idea involves speculations about new products, processes or services. This stage involved the conceptualization of the business idea, including the type of firm, the location and the nature of the local market and competition (Fischer, 1989). This and the following stage require extensive information search, and if the firm is to be viable from the outset; informed evaluation of this information. The proportionately higher transaction costs incurred by small firms when dealing with bureaucratic procedures, and the problem of effective information search with limited resources, in light of the time required and the high costs of professional help, may serve to limit the efficiency of this level of business development. This will obviously create problems at a later stage, as decisions will be made on the basis of inadequate information.



The stage of business planning and the drawing up of a business plan involve the specific testing of the feasibility of the business, and the development of market strategies. Again, access to market information and bureaucratic and legal sources is needed, as is a professional evaluation and presentation of the information. The business plan is the entrepreneur's principle tool for obtaining external finance, and as such is required to be both professionally presented and adequately researched (Timmons et al., 1977). Livian and Marion (1992, in Birley and Macmillan, eds.) drawing on their comparisons of successful versus non-successful "launching" conclude that the content of the business plan is secondary to the entrepreneur's ability to adapt and adjust as the project takes shape. The evaluation of the business plan and the existence of a clear vision of the business by the entrepreneur, are both good predictors for success. On the other hand, using the evaluation of an entrepreneur's personal capacities has been found to be a poor predictor by several studies.

The next stage of development involves the determination of the financial sources of the venture. This is considered to be the principle problem faced by small firms in the start up and early growth stages, as will be discussed at some length below. If finance is successfully obtained, before the firm may start operations, a variety of operational, administrative and promotional tasks such as the establishment of the legal structure of the firm, product development, marketing, the contracting of staff and a host of bureaucratic procedures must be completed. Again, these tasks require extensive information search, managerial skills, and involve relatively higher incidence of transactions costs, for small firms who must follow similar procedures to much larger complex organizations. These procedures continue right through the start up process into the early life of the business.

In summary, we may conclude that " the entrepreneur performs within and is motivated by the economic, social, political and cultural framework in which entrepreneurial activity is imbedded" (Shapiro, 1983). Having discussed those factors influencing the supply of entrepreneurial talents and the decision of potential entrepreneurs to become defacto entrepreneurs, we will now focus our attention on those personal characteristics influencing entrepreneurial success.

#### 2.4.1. Characteristics of Entrepreneurial Success

Together with the characteristics of entrepreneurial activity discussed above, an awareness of the characteristics seen to influence entrepreneurial success is relevant to the support function of selecting viable businesses for support. Much of the modern

literature stresses the economic significance of “picking winners” which clearly requires an understanding of the characteristics considered to influence success.

In the early stages of business development it is impossible to separate the potential of the firm from that of the entrepreneur. In this respect, the inevitable issue is what entrepreneurial and business characteristics are needed for the success of new businesses? The literature provides a comprehensive list of the various roles and characteristics necessary for a successful entrepreneur. There are important policy implications of the identification of those traits specific to the supply of entrepreneurial talents, and those necessary for the success of the entrepreneur in fulfilling his various roles. A determination of the theory of the supply of entrepreneurship and of entrepreneurial roles are necessary precedents if entrepreneurial characteristics are to be identified. Again, lack of consensus leaves open a broad range of possibilities, and a host of sometimes contradictory roles and characteristics. Ooghe et al. (1988) propose that criteria for project evaluation be divided into two groups.

The first group is composed of all of the criteria related to the analysis of the entrepreneur or the team and the management skills which surround the project. The importance given to the factors in the first group were pointed out by MacMillan et al. (1985) in a study of the factors used by venture capital companies in order to evaluate a project. Amongst the ten criteria which were regarded as being the most significant, five were directly related to the experience and the personality of the entrepreneur or of the team. Stuart and Abetti (1990) distinguish three major areas in the composition of this first group: 1. personality analysis, 2. the study of accumulated knowledge (background), 3. the examination of the management characteristics, which correspond to the capacities and to the vision of the new entrepreneur or the team.

Personality analysis: Research which was carried out in order to distinguish a specific profile of entrepreneur having great potential for success has often had limited results. Thus, studies based on the use of various batteries of psychological tests<sup>39</sup> or inquiries established from significant samples (Begley and Boyd, 1987) only very partially distinguish new entrepreneurs from other populations. The conclusions often come up with the observation of a greater need of achievement on the part of new entrepreneurs, a greater capacity to take risks, a greater tenacity and a greater propensity to accept the unknown.

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<sup>39</sup>. See Sexton and Bowman, 1986; Livian, 1989; and Beverine, 1989.

In Israel, the principle partners of government agencies in the provision of small firm assistance are generally other public and philanthropic bodies. Indeed, philanthropy has played a major role in the development of the infrastructure for the support of small firms, motivating government involvement. The "Central" government guaranteed loan fund has expanded over time to involve the cooperation of six commercial banks in the servicing of loans. Of late, the commercial banking sector has also expressed an interest in supporting the small business development center infrastructure. Nevertheless, there is much more potential for private involvement in small firm support. Structures for public-private cooperation need to be drawn up, also as a potential means of leveraging private investment into the small firm sector.

As regards entrepreneurial theory, the literature clearly presents the different stages of the entrepreneurial process and the associated problems. Entrepreneurial theory also defines those groups with a tendency towards entrepreneurial activity and those characteristics that influence entrepreneurial success. Entrepreneurial support should be clear as to the specific characteristics of its target group. This would result in, possibly, different means of support between different projects and different evaluation criteria as to the viability of business start ups etc.

In Israel, the characteristics of the entrepreneurial potential of immigrant groups needs to be investigated further. Policy makers need to determine the nature of support required and the areas in which new immigrants can best exploit their comparative advantage. Examples include the unexploited potential of new immigrant engineers and scientists, possibly in the area of Hi-tech; the successful support of female entrepreneurship, in recognition the high proportion of women organizing their own self-employment in professional fields; the potential of migrant networks in areas of international trade and specialized domestic markets.

Immigrant groups are described as having a tendency towards entrepreneurial activity. Indeed, there are numerous examples of immigrant entrepreneurial activity worldwide. The entrepreneurial strategies of different immigrant groups including Japanese, Korean, Jewish and Russian immigrants have been proven to be similar, in a number of different countries. Immigrant businesses generally outnumber veteran business by a ratio of 3:1. Israeli communities with origins in the former Soviet Union have employed the same entrepreneurial strategies and demonstrated the same types of activity as many other immigrant communities all over the world. Research conducted using the client base of the Haifa small business development Center<sup>80</sup> showed that the

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<sup>80</sup>. See Czamanski, Gomelski and Simmons, 1994

committees and parties have formed the basis for support system of small business as a sole solution of women's employment in new reality (Neishul, 1993). In immigrant's society the low level of female business activity were obtained by all investigators (Czamanski and Gomelski, 1993, Schwarz<sup>41</sup> and Zinger, 1993, Lerner and Hendeles, 1993). The necessity of the special support system for their business is objective condition for existence of this businesses.

Further important results (Cooper et al., 1988) include the fact that entrepreneurs from minority groups are less successful than others, whilst entrepreneurs with professional experience and a higher level of education are more successful; that initial management experience is not correlated with a high probability of success, whereas technical experience is. Nevertheless, the role of previous experience is examined in many other studies (Neiswander and Drollinger, 1986; Stuart and Abetti, 1987) and appears to be a key element. The main conclusion is a need for professional business courses.

There is a wide selection of research of a typological nature<sup>42</sup> examining the characteristics of the new entrepreneur or the entrepreneurial team. These studies have tried to associate different entrepreneurial types with specific firm types. Other studies demonstrate the relationships between the development of the company and the various networks to which the entrepreneur has access<sup>43</sup>. Several pieces of research underline the importance given to the strategy employed, and to the structure of the sector within which the firm is liable to develop (Sanberg and Hofer, 1986, Steiner and Solem, 1988).

Much reference is made in the entrepreneurship literature to a need for sound managerial skills in entrepreneurial undertakings<sup>44</sup> (Long, 1983, Timmons et al., 1977, Leibenstein, 1979). This does not suggest, however, that managers necessarily possess entrepreneurial qualities. Infact, a common differentiation is made between the qualities necessary for a successful manager and entrepreneur. The roles of inventor is also distinguished from that of the entrepreneur, whereby a Schumpeterian view is

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<sup>41</sup>. The English summary of this investigation was prepared for this report by Dr.Gustavo Mesch, Department of Sociology, University of Haifa.

<sup>42</sup>. See Peterson and Smith, 1986; Smith et al.,1987; and Woo et al., 1988.

<sup>43</sup>. See: Birley, 1985; Aldrich, Rosen and Woodward, 1987; and Ward and Randall, 1989.

<sup>44</sup>. See: Long, 1983, Timmons et al., 1977, and Leibenstein, 1979.

#### IV. COMMENTS AND POLICY RECOMMENDATIONS

The extensive discussion presented in this report covers many issues pertinent to small firm support. Our overall concern is the effective development of entrepreneurship policy in Israel, specifically the success with which policy encourages immigrant entrepreneurship. As yet, there are no Israeli studies to determine the effect of the support infrastructure on the success of small firms. Nevertheless, research conducted by the authors<sup>76</sup> has provided indications of inefficiencies and inadequacies inherent in the Israeli support system, not dissimilar to the criticism of experience elsewhere.

The support of entrepreneurship is a fundamental means of facilitating local economic development. As regards overall policy design, local needs should be clearly addressed and local potentials exploited. This requires a clear understanding of local conditions and the clear definition of policy goals and objectives. Only in this way is it possible to accurately evaluate policy success and attempt to integrate policy initiatives to form a coherent local economic development program. In Israel, there is a need for the two principle support initiatives, the small business loan funds and the small business development centres, to define clear operational objectives to facilitate the effective ongoing evaluation and development of support<sup>77</sup>. Although the two initiatives do cooperate to varying degrees, there is, nevertheless, evidence of inefficiencies and conflict within the support system.

Coordination and clear objective setting at the policy level must also be carried forward to the project design and implementation level. Israeli policy should take into consideration the experience of other developed countries. In Britain, the proliferation of projects for the support of entrepreneurship reached the extent that additional infrastructure development became counterproductive. If left unchecked, efforts are duplicated and a lack of coordination between organizations serves only to confuse clients to the extent that they are unable to use the system efficiently, or indeed are put off and do not seek help at all. Clients must have faith in the infrastructure if they are to use it to their full advantage.

Specific recommendations from the literature include the need for the specialization of projects; requiring the definition of target populations in terms of

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<sup>76</sup> . Czamanski and Gomelski, 1993; Simmons, 1993; Czamanski, Gomelski and Simmons, 1994; Gomelski, 1995.

<sup>77</sup> . See Simmons, 1993.

technological roles including supervision, efficiency maximization, and innovation and modification of technical processes.

#### 2.4.2. Entrepreneurial \ Small Firm Problems.

To appreciate the problems encountered by the entrepreneur we must investigate those influences that encourage or discourage entrepreneurial activity. Models of entrepreneurial activity, and theories of entrepreneurial supply therefore provide variables that may possibly be focused by government policy. Ashcroft et al. (1991) present four factors likely to influence the decision making involved in small firm formation at the local level; including expected profits, opportunity costs of self employment, personal wealth, and relevant skills of the individual. Problems inhibiting the start up and success of small ventures may again be seen to relate to the costs incurred in setting up operations, access to finance, and relevant entrepreneurial skills to facilitate effective business evaluation .

MacMillan et al. (1987) distinguish three major classes of failures. There are teams of poorly qualified entrepreneurs who have products which are poorly differentiated; qualified teams who very quickly come up against the competition and who have insufficient resistance to face it, and teams end by losing their initial advantage because they do not have adequate protection of the project. The nature of the product-market couple, the type of the manufacturing process, the degree of inexperience of the new entrepreneur are also put forward as being factors which determine how risky the project is. (Gorman and Shalman, 1984; Ramus, 1989).

Economic and financial performance indicators are also frequently mentioned. Some authors underline, for example, the importance of evaluating the risk associated with a lack of liquidity, due on the one hand to the tendency to have insufficient capital and, on the other hand, to the gaps generally met between forecasts and achievements (Fourcade, 1985, Neiswander and Drollinger, 1986). These indicators are used for training purposes in support programs. But it remains difficult to make the connection between these risks or these success criteria and concrete evaluation practices<sup>45</sup>

Taxes and time consuming and otherwise costly procedures and bureaucracy may inhibit the creation of small firms, by reducing their feasibility (Baumol, 1983). Laws, regulations and administrative actions may also increase transaction costs and

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<sup>45</sup>. See: Colombo, 1989; Depperu, 1989; and Ramus, 1989.

initiatives are directed at promoting employment creation. These include a number of programs for the promotion of small businesses and self employment of the Ministry of Industry and Trade; and the Ministry of Absorption programs developed for the promotion of new immigrant employment, principally assisting individual entrepreneurs (Gordon, 1993). Special populations assisted include: Ethiopians, Arab and Druze populations, women, the disabled and populations living in peripheral areas. New immigrants are one of the major target populations in most cases, due to the high levels of new immigrant unemployment.

Immigrant entrepreneurship are related to community characteristics. For example, for Korean immigrants the most important source of entrepreneurial assistance is information from their community (Min, 1988). Relatives or friends with business experience are likely to be a source of good and low-cost information. Where such ties are not formed in home-society context, they can be created after migration, as in the case of Koreans in New York. Korean immigrants attend churches in search of jobs or job information, business information, business contacts, to conduct business negotiations, or to seek private loans (Kim, 1987). Much of the information essential to entrepreneurs is gathered through ethnic channels (Aldrich and Waldinger, 1985).

Government agencies in Britain and the Netherlands have attempted to reach ethnic businessmen through various advisory services, with varying levels of success. In the Netherlands, for example, Surinamese entrepreneurs were poorly informed about the services, subsidies, and advice the government provided to small businessmen. This communication failure was primary due to the reluctance, and often the inability, of specialized bureaucrats to reach immigrant entrepreneurs (Boissevain and Grotenberg, 1986). The same problem has been encountered in the Russian immigrant community in Israel<sup>74</sup>. Results of our investigation in Haifa suggest that information concerning the official small business support system does not effectively reach the immigrant community. Most of the real and potential clientele of "MATI" Haifa did not understand the package of services provided. In situations where there is a lack of information or miss-information the alternative solution is mutual assistance within the immigrant group.

The ability of an ethnic community to provide the full range of information and services essential to the success of an enterprise depends, in part, on the size of

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<sup>74</sup> . For references see: Czamanski and Gomelski, 1993; Czamanski, Gomelski, Simmons, 1994; and Gomelski, 1995.

Banks and financial institutions are also seen to favour lending to large corporate borrowers. As firms increase in size they gain access to a greater variety of financial sources. These dealings often involve the formation of direct links in the form of joint directorship of projects, joint ownership, and other partnership dealings, and demand expertise quite different to that necessary for the handling of small venture. Furthermore, the administrative costs of lending to small enterprises are high relative to the amounts involved and may be seen to cut into the profitability of such loans<sup>48</sup>.

In addition to these problems related to the nature of small businesses, the banks are often seen to be excessively risk averse in the case of small businesses. The higher perceived risk relates to a lack of available information, due to the limitations of owner managers to present projects, and the lack of bank expertise in the small firm area. (Storey, 1981, Levitsky and Prasad, 1987). The owner-managers of small enterprises often lack the skills and the sufficient documentation to produce financial information in the form required (Levitsky and Prasad, 1987, Harrison and Mason, 1989). Paradoxically, the fear of small firm failure makes debt finance so expensive, that it increases the risk of early firm failure (Green and Shoven, 1983).

The most significant concerns highlighted by small firms themselves, are the levels of bank charges, interest rates, collateral required and credit availability. Banks are also criticized as having a low level of knowledge concerning small firm sectors, and as providing insufficient business advice (Binks, 1991). Solutions may include the development of simplified and standardized financial evaluation procedures for small firms, that may reduce the evaluation and monitoring of small firm projects by banks and other financial institutions (Frank, Miall and Rees, 1984). Binks (1991), recommends that the higher the quality of information exchange achieved between small firms and banks, the more accurate the assessments of risk will be. These points will be further discussed in the final section of this study.

In summary, small firms suffer from a lack of access to adequate forms of finance. They endure proportionately higher levels of transaction costs than larger organizations and suffer from a lack of access to information and professional expertise. These problems will be referenced repeatedly in the following discussions of initiatives for the promotion of entrepreneurship, and throughout the research conducted.

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<sup>48</sup>. See: Levitsky and Prasad, 1987 and Harrison and Mason, 1989.



Businesses catering to a minority population are likely to coexist with those aiming for a majority market. In the case of the last soviet immigration to Israel, the high levels of human capital forms a basis for the development of high-tech enterprise. As a rule, these projects are connected with incubators of different types or with international high-tech firms. The international trade system has also created another type of immigrant entrepreneur, namely those who participate in import-export markets. These entrepreneurs are generally not small business owners although their presence may stimulate and support immigrant small business.

### **3.5. Support System for Immigrant Entrepreneurship**

Immigrant entrepreneurs face the same problems as native Israeli entrepreneurs in the set up and development of their businesses with the addition of further specific problems determined by the particular characteristics of the immigrant community. In the case of immigration of Russian origins to Israel, special support may be needed to exploit the full potential of the high levels of human capital in entrepreneurial ventures. These difficulties are clearly very distinct from those encountered by Ethiopian immigrants in Israel, who come from a very distinct cultural context.

National and local governments vary in the extent to which they set restrictive constraints on which businesses can be started. In the Netherlands, for example, some trades require licenses and prospective entrepreneurs must show that there is a "need" for their business. In Germany, the legal right to open a business is contingent upon obtaining a residence permit, which is awarded after many years of labor migrant status. In Europe, formal requirements for starting craft and trade firms in various sectors were partially liberalized in the 1980s, making it easier for immigrants to open businesses (Waldinger, 1990).

Throughout the 1980s there was a growth in the range of different support agencies for small business in most developed countries. By the end of the decade, it was estimated that every person in Britain lived within ten miles of a local enterprise agency (Business in the Community, 1989). Although not the only form of support and counseling open to the small business owner, the exponential growth of local enterprise agencies (LEAs) led to them becoming an important feature of enterprise support networks (Truman, 1993). The support system for entrepreneurship of the native population coincided with a mass expansion of immigrant entrepreneurship. Cheap labor from Third World countries becomes cheap immigrant labor. The under

### 3.2. Entrepreneurship as an Employment Alternative for Immigrants

The experiences of immigrant entrepreneurship in other contexts may assist us in the study of the current situation in Israel. This section is based on the literature concerning middleman minorities and immigrant entrepreneurship. In some respects the immigrant society of Russian origin in Israel may be considered to be an ethnic population. In light of this, a review of the research on ethnic entrepreneurship is also included.

The resurgence of immigrant entrepreneurship in Britain, Canada, and the United States has added to the economic and social significance of small business. In these instances and elsewhere, immigrants have been seen to find unexploited niches, often based on the special needs and preferences of the immigrant communities themselves. Comparative advantages in this area include an intimate knowledge of their market and access to pools of cheap immigrant labor.

Traditionally, the small business sector occupied craft and small trader markets, which declined in the face of the development of large retail chains and the industrial production of consumption goods (Waldinger, et al., 1990). The small business sector underwent a revival in the early 1970s, when a net increase in the number of entrepreneurs and family businesses was recorded<sup>51</sup>. The early development of immigrant business followed a similar path. Indeed, immigrant entrepreneurship has its own modern history, that can be termed as "minority business development in industrial society" (Aldrich and Ward, 1984).

Small business development has been a common means of socio-economic integration for many recent immigrants to the United States. This is one of the major motivations behind the phenomenon of immigrant entrepreneurship, in situations characterized by mass dislocation and loss of socio-economic status<sup>52</sup>. Even though the majority of new businesses do not survive more than four years (Waldinger, et al,

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<sup>51</sup>. Today, many small firms act as subcontractors or franchises under the continuing control of large companies. Others are responding to the switch in consumer preferences where the low volume of sales puts smaller firms in a strong competitive position. The underground economy has increased its importance in the postwar welfare state (Guttman, 1977) and is also one of the sources of development of the small business sector. The firms supplying ethnically distinctive goods and services are just one category within the growing small firm population. However, the revival of small business has been widely accompanied by the infusion of new ethnic owners into the ranks of petty proprietorship.

<sup>52</sup>. See Blanschke, et al., 1990, in Waldinger et al.

The recent wave of Soviet immigration to Israel has been faced with all these problems, some of which it has sought to overcome <sup>71</sup>. A study of the short history of "Russian" enterprises in Israel provides typical examples of the conditions and characteristics of immigrant entrepreneurship: from the typical development of "ethnic" small service businesses such as "Russian" shops up to the political mobilization and solidarity involved in the formation of an organization such as the Association of New Entrepreneurs. The Association was formed in response to the disadvantaged position of immigrant businesses. Immigrant businesses consolidated to provide an example of ethnic alliance for political purposes. Another independent solution has been the development of a private market provision of entrepreneurial support founded by Russian immigrants, to supplement the public (government-philanthropic) support system.

All entrepreneurs require a certain amount of capital to establish their enterprises. The quantity of start-up capital varies depending on the accessibility of the entrepreneur to capital sources. Studies of the start-up of small businesses suggest that ethnic entrepreneurs typically start their businesses with personal savings. Whilst some immigrant entrepreneurs had arranged loans within their ethnic community, very few had managed to acquire bank loans, and those that did were usually expanding an existing business. Very few of the immigrant entrepreneurs had brought capital with them when they immigrated (Boissevain, 1990).

An absence of start-up capital is indicated to be the most common problem for immigrant entrepreneurs according to our research on the recent wave of soviet immigration to Israel<sup>72</sup>. The sole financial source for small immigrant firms is the small business loan. In this respect the position of the new immigrants in Israel is greatly assisted by the favorable terms of the Ministry of Immigrant Absorption loan fund for the self employed<sup>73</sup>. The last report of the Bank of Israel reports that new immigrants arriving after 1992-93 have different economic circumstances, because of changes in the policy of private capital ownership in the soviet economy.

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<sup>71</sup>. Examples include: "MATI"; business courses and seminars; the Association of New Entrepreneurs; small business loan funds; and the Zionist Forum all form parts of the immigrant entrepreneurship system.

<sup>72</sup>. For references see: Czamanski and Gomelski, 1993, Lerner and Hendeles, 1993, Schwarz and Zinger, 1993.

<sup>73</sup>. See: Czamanski, Gomelski, Simmons, 1994.

### 3.3. Evidence of Immigrant Entrepreneurship

There are a number of different examples of entrepreneurial activity in immigrant communities. The common features and differences in the entrepreneurial activities of immigrant groups may provide a basis for the understanding of the potential of the recent wave of Israeli immigration. History shows considerable disparities in rates of self-employment among the various European immigrant and Afro-American populations (Waldinger, et al., 1990), whilst business participation rates in the USA reveal several basic trends (Fratoc, 1986).

The historic existence of middleman minorities, such as Jews of Russian origin, Lebanese, Armenian and Greek minorities, are characterized by their over-representation in self-employment- at more than double national average rate. Furthermore, Asian immigrants (Japanese and Chinese) exhibit above- or near-average business participation rates. Nevertheless, blacks, Mexicans and other Hispanic groups continue to have participation rates considerably below the average<sup>55</sup>.

Examples of entrepreneurial activity by those of Russian ancestry is promising for the current Israeli context. Historically, immigrants of Russian origin have had the highest rate of business participation and highest mean income of all the immigrant groups in the USA (Waldinger and Aldrich, 1990, in Waldinger et al.).

Recognition of the increasingly pivotal role of small business in economic development was widespread during the 1980s, not only in the United States, but in the European Community and the Pacific Rim countries. The significance of small business features now as part of the Eastern European discourses on their transition to market economies (Allen and Truman, 1993). The recent immigrants from the former socialist countries of East Europe may well provide a further example of immigrant business development, characterized as the export of human capital from these countries (Neishul, 1993).

At this point it is necessary to define the term "ethnic". Ethnic is an adjective that refers to differences between categories of people (Petersen, 1980). According to Aldrich (1990) "ethnic" and "ethnic business" describe a set of connections and regular patterns of interaction among people sharing a common national background or

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<sup>55</sup>. See: Waldinger and Aldrich, 1990, in Waldinger et al.

1977). Ethnic enterprise develops the potential for what Max Weber (1958) called a dual ethic, one morality for in-group members and another for the out-group. Because of that, the development of immigrant businesses is often associated with underground economics, or the "black" market. As a rule, the fact that immigrant entrepreneurship depends on the mobilization of resources and ethnic solidarity enhances this potential: immigrant small business owners are often seen to operate as a kind of collective. Individualistic competition is replaced by group competition (Light, 1988).

Government advertisements in the press and mass media generally give the impression that starting a business is glamorous and easy. In the real world this image could not be further from the truth. Business creation is by no means an easy option. Many people do not have the right temperament, motivation or determination to set up a business; and for some people it is simply a desperate attempt to find a way out of the misery and degradation of the unemployment lines (Kaur and Hayden, 1993). In order to ensure business success, ethnic entrepreneurs must utilize socio-economic resources, such as wealth and human capital, together with ethnic resources, which may be termed as the sociocultural features of a group that coethnic business owners can employ or from which their businesses can passively benefit (Light and Bonacich, 1988).

### 3.4.3. Problems of Immigrant Entrepreneurship

The problems encountered by immigrant entrepreneurs are of both a general and specific nature. They share many of the problems encountered by small native firms. Specific problems relate to the nature of immigrant entrepreneurship the special characteristics of the particular immigrant community.

Immigrant businesses are often confronted by legal and political constraints<sup>69</sup>. Research indicates that immigrant entrepreneurs feel that their businesses are hindered by the local authorities. This would clearly imply that the official business support system is of less relevance to them than native businesses.

Immigrants and ethnic minorities have become increasingly dependent on the small firm sectors of their economies, whether as owners or employees (Aldrich, et al., 1983). The niches that they fill are usually those unsuitable for mass production or distribution. Businesses are created in response to perceptions of market demand. The

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entrepreneurship (Carter et al., 1989; Curran, 1986). Research in Britain (Ward and Jenkins, 1984) called attention to the extensive self-employment among foreign-born Greeks, Italians, Gujarati Hindus, Sikhs, and Pakistanis. These trends were more pronounced where regional unemployment rates were the highest. Clearly, not all self-employed people can be described as small business owners or "entrepreneurs". Indeed, in general, around two-thirds of the self-employed do not employ any other people besides themselves (Creigh et al., 1986).

It is unclear whether the American precedent of immigrant mobility through entrepreneurship may apply in western European economies (with more stable and ethnically homogeneous population). The similar experiences of Jews in France and Britain (Pollins, 1984; Green, 1986) and Italian and Cypriot immigrants in Britain (Ward and Jenkins, 1984) provide an indication that this may be the case. The mass migration from the economic ruins of Eastern Europe may provide a new surge of entrepreneurial activity in the host countries of this recent wave of immigration.

This phenomenon of immigrant entrepreneurship is of great significance for Israel, the native country for millions of immigrants. Labor market conditions do not allow for the full integration of the immigrant workforce. Accordingly, the regeneration of the national economy is one of the major goals of the current government. This regeneration could be achieved through the inflow of considerable amounts of foreign capital, as is the case in the former Soviet Union at present (Dubini, 1992; Glasiev, 1993), or through the internal generation of economic growth. In this respect, the recent initiatives for the promotion of small business recognize the widespread confidence in their economic development role (Williams, 1985).

The official support of immigrant entrepreneurship varies between socio-economic and political contexts. This raises the issue as to how the cultural, political, and economic characteristics of immigrants and their host society influence the development of immigrant businesses. Small business has played an important role in the economic progress of several earlier immigrant groups in the United States including Jews, Chinese, Italians and Greeks<sup>58</sup>. For Israeli economic development policy the support of small immigrant business may provide a means of both generating economic activity and absorbing the immigrant groups into Israeli society<sup>59</sup>.

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<sup>58</sup>. See: Light, 1972; Bonacich and Modell, 1980; and Baron, eds., 1975.

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century Britain (Light, 1983). Middleman literature stresses the supply side of entrepreneurship, emphasizing the ability of entrepreneurial sub-groups to develop firms in unpromising economic contexts. The theme of ethnic entrepreneurship is based primarily on the expansion of middleman theory.

Waldinger et al. (1990) showed how very different and widely separated ethnic groups utilize rather similar strategies in their attempts to carve out economic niches in Western industrial societies. Ethnic entrepreneurs need distinctive strategies for three reasons.

Firstly, distinctive strategies enable them to exploit distinctive socio-cultural resources. For example, minority entrepreneurs utilize the cheap and loyal labor of co-ethnic available to them because of the discrimination and resulting underemployment imposed on those groups<sup>67</sup>. The low average income of immigrant families provides ethnic businessmen with the possibility of cheap labor. Unemployment and discriminatory income policy have provided conditions in which ethnic business is a viable option.

Secondly, minority entrepreneurs must also compensate for their disadvantages with respect to wealth, valid educational credentials, political power, and influential contacts<sup>68</sup>. Finally, as social outsiders, they face political and economic obstacles that native-born or majority entrepreneurs escape. For example, because of difficulties in obtaining loans from commercial banks, minority entrepreneurs need to nurture kinship and friendship networks that provide alternative access to the savings of coethnics.

#### 3.4.2. Success Characteristics of Immigrant Entrepreneurship

One of the main success characteristics of immigrant entrepreneurship is related to the specific features of immigrant communities. Differences in the entrepreneurial success of different immigrant groups is associated with immigrant

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<sup>67</sup>. About half of the existing new immigrant businesses in Israel are different forms of self-employment, part of them (about 1/4 of all) may be defined as small family businesses. (Gomelski, 1995).

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The previous waves of immigration were obtained a lower rate of self-employment - 5-7%, than did the total Jewish population in Israel - 11,6% (Razin, 1989). The first stages of recent immigrant's entrepreneurship have obtained the classic tendency of ethnic business: most of immigrant's businesses were very small (one or two employer, including family) and were based in the services or commerce (Schwarz, Zinger, 1993). Now half of them have employees (average 6) and only 1/4 - family business (Gomelski, 1995).

The recent wave of soviet immigrants to Israel has a large potential of human capital. However from a total of 10,000 post-graduate scientists only 40-60% are employed in their full professional capacity. In this professional group the income of immigrant scientists consists of less than 30% of the income of native Israeli scientists. Overall, the average income of immigrants is 60% of that of the native population<sup>61</sup>. In this respect, these unfavorable conditions may increase the entrepreneurial tendencies of highly educated immigrants. Our research in Haifa<sup>62</sup> indicates the interest of this group in improving their socio-economic status with the help of official small business support. A majority of the immigrant clients of the Centers for Promotion of Entrepreneurship have a higher education or Ph.D. According to our research, immigrants have significant pre-migration business experience (about 30% of respondents) and we may identify income discrimination as post migration characteristic.

The entrepreneurial activity of Russian immigrants can be seen to be in partial response to low immigrant salaries, due to discrimination and an excess supply of skilled labour. In this respect, many immigrant businesses are prepared to sell at prices below native Israeli firms. In 1994 the average salary of immigrants from the former USSR consisted 2,200 NIS per month (2,600 NIS for men and 1,700 NIS for women). Whilst this low income level stimulates their interest in entrepreneurship, it restricts business start-ups due to an absence of financial resources. The recent wave of Soviet immigrants lack initial resources to invest in the economy (Flug et al, 1993). This situation began to change only in 1992, with the privatization of certain types of asset in Russia, such as the privatization of the housing market in 1993 (Annual report of the Bank Israel, 1994).

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The failure to identify and evaluate the skills and experience of immigrant groups is largely due to a lack of communication between Israeli institutions and the immigrant community. Because of differences in mentality, conclusions and opinions often differ between the immigrant and the native population. Current socio-economic conditions provide the context for the development of the official support of immigrant entrepreneurship. The issue is how cultural, political, and economic differences of between immigrants and the host society influence immigrant small businesses potential. Enterprise is now seen to be central to the regeneration of declining economies (Hobbs, 1991). If human capital of immigrants from the former USSR pushed into entrepreneurship, it provides considerable economic potential for the Israeli economy.

### **3.4. Characteristics of Immigrant Entrepreneurship**

In this part of the report the specific features of immigrant entrepreneurship will be described on the basis of published research. The entrepreneurial characteristics of the "Russian" community in Israel were defined on the basis of research conducted by Dr. M.Lerner (1993, 1994), Dr. D.Schwarz (1993) and Dr. N.Gomelski (beginning in 1992). Part of the information was obtained from the Israeli Association of New Entrepreneurs with assistance of Dr. U.Shtern.

#### **3.4.1. Theoretical Background**

The first issue of immigrant entrepreneurship is the definition of the immigrant population. There are many theories regarding reasons for immigration from one society to another and the characteristics of these people - immigrants.

The process of leaving one's home to take up life in a new society is self-selective: the workers who enter the immigration stream tend to be more able, better prepared, and more inclined towards risk than those who stay home. Waves of immigration from the Third World to Western countries were motivated mostly by economic motives, although it is difficult to identify the reasons for immigration in all cases (Carmon eds., 1993).

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The problems encountered by immigrant entrepreneurs are of both a general and specific nature. They share many of the problems encountered by small native firms. Specific problems relate to the nature of immigrant entrepreneurship the special characteristics of the particular immigrant community.

Immigrant businesses are often confronted by legal and political constraints<sup>69</sup>. Research indicates that immigrant entrepreneurs feel that their businesses are hindered by the local authorities. This would clearly imply that the official business support system is of less relevance to them than native businesses.

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### **3.3. Evidence of Immigrant Entrepreneurship**

There are a number of different examples of entrepreneurial activity in immigrant communities. The common features and differences in the entrepreneurial activities of immigrant groups may provide a basis for the understanding of the potential of the recent wave of Israeli immigration. History shows considerable disparities in rates of self-employment among the various European immigrant and Afro-American populations (Waldinger, et al., 1990), whilst business participation rates in the USA reveal several basic trends (Fratoe, 1986).

The historic existence of middleman minorities, such as Jews of Russian origin, Lebanese, Armenian and Greek minorities, are characterized by their over-representation in self-employment- at more than double national average rate. Furthermore, Asian immigrants (Japanese and Chinese) exhibit above- or near-average business participation rates. Nevertheless, blacks, Mexicans and other Hispanic groups continue to have participation rates considerably below the average<sup>55</sup>.

Examples of entrepreneurial activity by those of Russian ancestry is promising for the current Israeli context. Historically, immigrants of Russian origin have had the highest rate of business participation and highest mean income of all the immigrant groups in the USA (Waldinger and Aldrich, 1990, in Waldinger et al.).

Recognition of the increasingly pivotal role of small business in economic development was widespread during the 1980s, not only in the United States, but in the European Community and the Pacific Rim countries. The significance of small business features now as part of the Eastern European discourses on their transition to market economies (Allen and Truman, 1993). The recent immigrants from the former socialist countries of East Europe may well provide a further example of immigrant business development, characterized as the export of human capital from these countries (Neishul, 1993).

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The recent wave of Soviet immigration to Israel has been faced with all these problems, some of which it has sought to overcome<sup>71</sup>. A study of the short history of "Russian" enterprises in Israel provides typical examples of the conditions and characteristics of immigrant entrepreneurship: from the typical development of "ethnic" small service businesses such as "Russian" shops up to the political mobilization and solidarity involved in the formation of an organization such as the Association of New Entrepreneurs. The Association was formed in response to the disadvantaged position of immigrant businesses. Immigrant businesses consolidated to provide an example of ethnic alliance for political purposes. Another independent solution has been the development of a private market provision of entrepreneurial support founded by Russian immigrants, to supplement the public (government-philanthropic) support system.

All entrepreneurs require a certain amount of capital to establish their enterprises. The quantity of start-up capital varies depending on the accessibility of the entrepreneur to capital sources. Studies of the start-up of small businesses suggest that ethnic entrepreneurs typically start their businesses with personal savings. Whilst some immigrant entrepreneurs had arranged loans within their ethnic community, very few had managed to acquire bank loans, and those that did were usually expanding an existing business. Very few of the immigrant entrepreneurs had brought capital with them when they immigrated (Boissevain, 1990).

An absence of start-up capital is indicated to be the most common problem for immigrant entrepreneurs according to our research on the recent wave of soviet immigration to Israel<sup>72</sup>. The sole financial source for small immigrant firms is the small business loan. In this respect the position of the new immigrants in Israel is greatly assisted by the favorable terms of the Ministry of Immigrant Absorption loan fund for the self employed<sup>73</sup>. The last report of the Bank of Israel reports that new immigrants arriving after 1992-93 have different economic circumstances, because of changes in the policy of private capital ownership in the soviet economy.

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<sup>71</sup>. Examples include: "MATT"; business courses and seminars; the Association of New Entrepreneurs; small business loan funds; and the Zionist Forum all form parts of the immigrant entrepreneurship system.

<sup>72</sup>. For references see: Czamanski and Gomelski, 1993, Lerner and Hendeles, 1993, Schwarz and Zinger, 1993.

<sup>73</sup>. See: Czamanski, Gomelski, Simmons, 1994.



### 3.2. Entrepreneurship as an Employment Alternative for Immigrants

The experiences of immigrant entrepreneurship in other contexts may assist us in the study of the current situation in Israel. This section is based on the literature concerning middleman minorities and immigrant entrepreneurship. In some respects the immigrant society of Russian origin in Israel may be considered to be an ethnic population. In light of this, a review of the research on ethnic entrepreneurship is also included.

The resurgence of immigrant entrepreneurship in Britain, Canada, and the United States has added to the economic and social significance of small business. In these instances and elsewhere, immigrants have been seen to find unexploited niches, often based on the special needs and preferences of the immigrant communities themselves. Comparative advantages in this area include an intimate knowledge of their market and access to pools of cheap immigrant labor.

Traditionally, the small business sector occupied craft and small trader markets, which declined in the face of the development of large retail chains and the industrial production of consumption goods (Waldinger, et al., 1990). The small business sector underwent a revival in the early 1970s, when a net increase in the number of entrepreneurs and family businesses was recorded<sup>51</sup>. The early development of immigrant business followed a similar path. Indeed, immigrant entrepreneurship has its own modern history, that can be termed as "minority business development in industrial society" (Aldrich and Ward, 1984).

Small business development has been a common means of socio-economic integration for many recent immigrants to the United States. This is one of the major motivations behind the phenomenon of immigrant entrepreneurship, in situations characterized by mass dislocation and loss of socio-economic status<sup>52</sup>. Even though the majority of new businesses do not survive more than four years (Waldinger, et al,

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<sup>51</sup>. Today, many small firms act as subcontractors or franchises under the continuing control of large companies. Others are responding to the switch in consumer preferences where the low volume of sales puts smaller firms in a strong competitive position. The underground economy has increased its importance in the postwar welfare state (Guttman, 1977) and is also one of the sources of development of the small business sector. The firms supplying ethnically distinctive goods and services are just one category within the growing small firm population. However, the revival of small business has been widely accompanied by the infusion of new ethnic owners into the ranks of petty proprietorship.

<sup>52</sup>. See Blanschke, et al., 1990, in Waldinger et al.

Businesses catering to a minority population are likely to coexist with those aiming for a majority market. In the case of the last soviet immigration to Israel, the high levels of human capital forms a basis for the development of high-tech enterprise. As a rule, these projects are connected with incubators of different types or with international high-tech firms. The international trade system has also created another type of immigrant entrepreneur, namely those who participate in import-export markets. These entrepreneurs are generally not small business owners although their presence may stimulate and support immigrant small business.

### **3.5. Support System for Immigrant Entrepreneurship**

Immigrant entrepreneurs face the same problems as native Israeli entrepreneurs in the set up and development of their businesses with the addition of further specific problems determined by the particular characteristics of the immigrant community. In the case of immigration of Russian origins to Israel, special support may be needed to exploit the full potential of the high levels of human capital in entrepreneurial ventures. These difficulties are clearly very distinct from those encountered by Ethiopian immigrants in Israel, who come from a very distinct cultural context.

National and local governments vary in the extent to which they set restrictive constraints on which businesses can be started. In the Netherlands, for example, some trades require licenses and prospective entrepreneurs must show that there is a "need" for their business. In Germany, the legal right to open a business is contingent upon obtaining a residence permit, which is awarded after many years of labor migrant status. In Europe, formal requirements for starting craft and trade firms in various sectors were partially liberalized in the 1980s, making it easier for immigrants to open businesses (Waldinger, 1990).

Throughout the 1980s there was a growth in the range of different support agencies for small business in most developed countries. By the end of the decade, it was estimated that every person in Britain lived within ten miles of a local enterprise agency (Business in the Community, 1989). Although not the only form of support and counseling open to the small business owner, the exponential growth of local enterprise agencies (LEAs) led to them becoming an important feature of enterprise support networks (Truman, 1993). The support system for entrepreneurship of the native population coincided with a mass expansion of immigrant entrepreneurship. Cheap labor from Third World countries becomes cheap immigrant labor. The under

Banks and financial institutions are also seen to favour lending to large corporate borrowers. As firms increase in size they gain access to a greater variety of financial sources. These dealings often involve the formation of direct links in the form of joint directorship of projects, joint ownership, and other partnership dealings, and demand expertise quite different to that necessary for the handling of small venture. Furthermore, the administrative costs of lending to small enterprises are high relative to the amounts involved and may be seen to cut into the profitability of such loans<sup>48</sup>.

In addition to these problems related to the nature of small businesses, the banks are often seen to be excessively risk averse in the case of small businesses. The higher perceived risk relates to a lack of available information, due to the limitations of owner managers to present projects, and the lack of bank expertise in the small firm area. (Storey, 1981, Levitsky and Prasad, 1987). The owner-managers of small enterprises often lack the skills and the sufficient documentation to produce financial information in the form required (Levitsky and Prasad, 1987, Harrison and Mason, 1989). Paradoxically, the fear of small firm failure makes debt finance so expensive, that it increases the risk of early firm failure (Green and Shoven, 1983).

The most significant concerns highlighted by small firms themselves, are the levels of bank charges, interest rates, collateral required and credit availability. Banks are also criticized as having a low level of knowledge concerning small firm sectors, and as providing insufficient business advice (Binks, 1991). Solutions may include the development of simplified and standardized financial evaluation procedures for small firms, that may reduce the evaluation and monitoring of small firm projects by banks and other financial institutions (Frank, Miall and Rees, 1984). Binks (1991), recommends that the higher the quality of information exchange achieved between small firms and banks, the more accurate the assessments of risk will be. These points will be further discussed in the final section of this study.

In summary, small firms suffer from a lack of access to adequate forms of finance. They endure proportionately higher levels of transaction costs than larger organizations and suffer from a lack of access to information and professional expertise. These problems will be referenced repeatedly in the following discussions of initiatives for the promotion of entrepreneurship, and throughout the research conducted.

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<sup>48</sup>. See: Levitsky and Prasad, 1987 and Harrison and Mason, 1989.

initiatives are directed at promoting employment creation. These include a number of programs for the promotion of small businesses and self employment of the Ministry of Industry and Trade; and the Ministry of Absorption programs developed for the promotion of new immigrant employment, principally assisting individual entrepreneurs (Gordon, 1993). Special populations assisted include: Ethiopians, Arab and Druze populations, women, the disabled and populations living in peripheral areas. New immigrants are one of the major target populations in most cases, due to the high levels of new immigrant unemployment.

Immigrant entrepreneurship are related to community characteristics. For example, for Korean immigrants the most important source of entrepreneurial assistance is information from their community (Min, 1988). Relatives or friends with business experience are likely to be a source of good and low-cost information. Where such ties are not formed in home-society context, they can be created after migration, as in the case of Koreans in New York. Korean immigrants attend churches in search of jobs or job information, business information, business contacts, to conduct business negotiations, or to seek private loans (Kim, 1987). Much of the information essential to entrepreneurs is gathered through ethnic channels (Aldrich and Waldinger, 1985).

Government agencies in Britain and the Netherlands have attempted to reach ethnic businessmen through various advisory services, with varying levels of success. In the Netherlands, for example, Surinamese entrepreneurs were poorly informed about the services, subsidies, and advice the government provided to small businessmen. This communication failure was primary due to the reluctance, and often the inability, of specialized bureaucrats to reach immigrant entrepreneurs (Boissevain and Grotenberg, 1986). The same problem has been encountered in the Russian immigrant community in Israel<sup>74</sup>. Results of our investigation in Haifa suggest that information concerning the official small business support system does not effectively reach the immigrant community. Most of the real and potential clientele of "MATT" Haifa did not understand the package of services provided. In situations where there is a lack of information or miss-information the alternative solution is mutual assistance within the immigrant group.

The ability of an ethnic community to provide the full range of information and services essential to the success of an enterprise depends, in part, on the size of

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<sup>74</sup> . For references see: Czamanski and Gomelski, 1993; Czamanski, Gomelski, Simmons, 1994; and Gomelski, 1995.

technological roles including supervision, efficiency maximization, and innovation and modification of technical processes.

#### 2.4.2. Entrepreneurial \ Small Firm Problems.

To appreciate the problems encountered by the entrepreneur we must investigate those influences that encourage or discourage entrepreneurial activity. Models of entrepreneurial activity, and theories of entrepreneurial supply therefore provide variables that may possibly be focused by government policy. Ashcroft et al. (1991) present four factors likely to influence the decision making involved in small firm formation at the local level; including expected profits, opportunity costs of self employment, personal wealth, and relevant skills of the individual. Problems inhibiting the start up and success of small ventures may again be seen to relate to the costs incurred in setting up operations, access to finance, and relevant entrepreneurial skills to facilitate effective business evaluation .

MacMillan et al. (1987) distinguish three major classes of failures. There are teams of poorly qualified entrepreneurs who have products which are poorly differentiated; qualified teams who very quickly come up against the competition and who have insufficient resistance to face it, and teams end by losing their initial advantage because they do not have adequate protection of the project. The nature of the product-market couple, the type of the manufacturing process, the degree of inexperience of the new entrepreneur are also put forward as being factors which determine how risky the project is. (Gorman and Shalman, 1984; Ramus, 1989).

Economic and financial performance indicators are also frequently mentioned. Some authors underline, for example, the importance of evaluating the risk associated with a lack of liquidity, due on the one hand to the tendency to have insufficient capital and, on the other hand, to the gaps generally met between forecasts and achievements (Fourcade, 1985, Neiswander and Drollinger, 1986). These indicators are used for training purposes in support programs. But it remains difficult to make the connection between these risks or these success criteria and concrete evaluation practices<sup>45</sup>

Taxes and time consuming and otherwise costly procedures and bureaucracy may inhibit the creation of small firms, by reducing their feasibility (Baumol, 1983). Laws, regulations and administrative actions may also increase transaction costs and

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<sup>45</sup>. See: Colombo, 1989; Depperu, 1989; and Ramus, 1989.

#### IV. COMMENTS AND POLICY RECOMMENDATIONS

The extensive discussion presented in this report covers many issues pertinent to small firm support. Our overall concern is the effective development of entrepreneurship policy in Israel, specifically the success with which policy encourages immigrant entrepreneurship. As yet, there are no Israeli studies to determine the effect of the support infrastructure on the success of small firms. Nevertheless, research conducted by the authors<sup>76</sup> has provided indications of inefficiencies and inadequacies inherent in the Israeli support system, not dissimilar to the criticism of experience elsewhere.

The support of entrepreneurship is a fundamental means of facilitating local economic development. As regards overall policy design, local needs should be clearly addressed and local potentials exploited. This requires a clear understanding of local conditions and the clear definition of policy goals and objectives. Only in this way is it possible to accurately evaluate policy success and attempt to integrate policy initiatives to form a coherent local economic development program. In Israel, there is a need for the two principle support initiatives, the small business loan funds and the small business development centres, to define clear operational objectives to facilitate the effective ongoing evaluation and development of support<sup>77</sup>. Although the two initiatives do cooperate to varying degrees, there is, nevertheless, evidence of inefficiencies and conflict within the support system.

Coordination and clear objective setting at the policy level must also be carried forward to the project design and implementation level. Israeli policy should take into consideration the experience of other developed countries. In Britain, the proliferation of projects for the support of entrepreneurship reached the extent that additional infrastructure development became counterproductive. If left unchecked, efforts are duplicated and a lack of coordination between organizations serves only to confuse clients to the extent that they are unable to use the system efficiently, or indeed are put off and do not seek help at all. Clients must have faith in the infrastructure if they are to use it to their full advantage.

Specific recommendations from the literature include the need for the specialization of projects; requiring the definition of target populations in terms of

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<sup>76</sup> . Czamanski and Gomelski, 1993; Simmons, 1993; Czamanski, Gomelski and Simmons, 1994; Gomelski, 1995.

<sup>77</sup> . See Simmons, 1993.

committees and parties have formed the basis for support system of small business as a sole solution of women's employment in new reality (Neishul, 1993). In immigrant's society the low level of female business activity were obtained by all investigators (Czamanski and Gomelski, 1993, Schwarz<sup>41</sup> and Zinger, 1993, Lerner and Hendeles, 1993). The necessity of the special support system for their business is objective condition for existence of this businesses.

Further important results (Cooper et al., 1988) include the fact that entrepreneurs from minority groups are less successful than others, whilst entrepreneurs with professional experience and a higher level of education are more successful; that initial management experience is not correlated with a high probability of success, whereas technical experience is. Nevertheless, the role of previous experience is examined in many other studies (Neiswander and Drollinger, 1986; Stuart and Abetti, 1987) and appears to be a key element. The main conclusion is a need for professional business courses.

There is a wide selection of research of a typological nature<sup>42</sup> examining the characteristics of the new entrepreneur or the entrepreneurial team. These studies have tried to associate different entrepreneurial types with specific firm types. Other studies demonstrate the relationships between the development of the company and the various networks to which the entrepreneur has access<sup>43</sup>. Several pieces of research underline the importance given to the strategy employed, and to the structure of the sector within which the firm is liable to develop (Sanberg and Hofer, 1986, Steiner and Solem, 1988).

Much reference is made in the entrepreneurship literature to a need for sound managerial skills in entrepreneurial undertakings<sup>44</sup> (Long, 1983, Timmons et al., 1977, Leibenstein, 1979). This does not suggest, however, that managers necessarily possess entrepreneurial qualities. Infact, a common differentiation is made between the qualities necessary for a successful manager and entrepreneur. The roles of inventor is also distinguished from that of the entrepreneur, whereby a Schumpeterian view is

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<sup>41</sup>. The English summary of this investigation was prepared for this report by Dr.Gustavo Mesch, Department of Sociology, University of Haifa.

<sup>42</sup>. See Peterson and Smith, 1986; Smith et al.,1987; and Woo et al., 1988.

<sup>43</sup>. See: Birley, 1985; Aldrich, Rosen and Woodward, 1987; and Ward and Randall, 1989.

<sup>44</sup>. See: Long, 1983, Timmons et al., 1977, and Leibenstein, 1979.

In Israel, the principle partners of government agencies in the provision of small firm assistance are generally other public and philanthropic bodies. Indeed, philanthropy has played a major role in the development of the infrastructure for the support of small firms, motivating government involvement. The "Central" government guaranteed loan fund has expanded over time to involve the cooperation of six commercial banks in the servicing of loans. Of late, the commercial banking sector has also expressed an interest in supporting the small business development center infrastructure. Nevertheless, there is much more potential for private involvement in small firm support. Structures for public-private cooperation need to be drawn up, also as a potential means of leveraging private investment into the small firm sector.

As regards entrepreneurial theory, the literature clearly presents the different stages of the entrepreneurial process and the associated problems. Entrepreneurial theory also defines those groups with a tendency towards entrepreneurial activity and those characteristics that influence entrepreneurial success. Entrepreneurial support should be clear as to the specific characteristics of its target group. This would result in, possibly, different means of support between different projects and different evaluation criteria as to the viability of business start ups etc.

In Israel, the characteristics of the entrepreneurial potential of immigrant groups needs to be investigated further. Policy makers need to determine the nature of support required and the areas in which new immigrants can best exploit their comparative advantage. Examples include the unexploited potential of new immigrant engineers and scientists, possibly in the area of Hi-tech; the successful support of female entrepreneurship, in recognition the high proportion of women organizing their own self-employment in professional fields; the potential of migrant networks in areas of international trade and specialized domestic markets.

Immigrant groups are described as having a tendency towards entrepreneurial activity. Indeed, there are numerous examples of immigrant entrepreneurial activity worldwide. The entrepreneurial strategies of different immigrant groups including Japanese, Korean, Jewish and Russian immigrants have been proven to be similar, in a number of different countries. Immigrant businesses generally outnumber veteran business by a ratio of 3:1. Israeli communities with origins in the former Soviet Union have employed the same entrepreneurial strategies and demonstrated the same types of activity as many other immigrant communities all over the world. Research conducted using the client base of the Haifa small business development Center<sup>80</sup> showed that the

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<sup>80</sup>. See Czamanski, Gomelski and Simmons, 1994



literature stresses the economic significance of “picking winners” which clearly requires an understanding of the characteristics considered to influence success.

In the early stages of business development it is impossible to separate the potential of the firm from that of the entrepreneur. In this respect, the inevitable issue is what entrepreneurial and business characteristics are needed for the success of new businesses? The literature provides a comprehensive list of the various roles and characteristics necessary for a successful entrepreneur. There are important policy implications of the identification of those traits specific to the supply of entrepreneurial talents, and those necessary for the success of the entrepreneur in fulfilling his various roles. A determination of the theory of the supply of entrepreneurship and of entrepreneurial roles are necessary precedents if entrepreneurial characteristics are to be identified. Again, lack of consensus leaves open a broad range of possibilities, and a host of sometimes contradictory roles and characteristics. Ooghe et al. (1988) propose that criteria for project evaluation be divided into two groups.

The first group is composed of all of the criteria related to the analysis of the entrepreneur or the team and the management skills which surround the project. The importance given to the factors in the first group were pointed out by MacMillan et al. (1985) in a study of the factors used by venture capital companies in order to evaluate a project. Amongst the ten criteria which were regarded as being the most significant, five were directly related to the experience and the personality of the entrepreneur or of the team. Stuart and Abetti (1990) distinguish three major areas in the composition of this first group: 1. personality analysis, 2. the study of accumulated knowledge (background), 3. the examination of the management characteristics, which correspond to the capacities and to the vision of the new entrepreneur or the team.

**Personality analysis:** Research which was carried out in order to distinguish a specific profile of entrepreneur having great potential for success has often had limited results. Thus, studies based on the use of various batteries of psychological tests<sup>39</sup> or inquiries established from significant samples (Begley and Boyd, 1987) only very partially distinguish new entrepreneurs from other populations. The conclusions often come up with the observation of a greater need of achievement on the part of new entrepreneurs, a greater capacity to take risks, a greater tenacity and a greater propensity to accept the unknown.

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<sup>39</sup>. See Sexton and Bowman, 1986; Livian, 1989; and Beverine, 1989.

research conducted by Gomelski (1995) in cooperation with the Israeli Association of New Entrepreneurs it was found that 50% of immigrant businesses had employees, whereas 25% employed only family members. Most immigrant businesses are characterized as belonging to the informal economy. The Israeli case suggests far less.

The literature suggests that female immigrants are typically employees in both the general labor market and the immigrant economy. The case of female immigrants to Israel from the former Soviet Union has shown that entrepreneurship has proven to be a means for these women to exploit their high levels of human capital<sup>82</sup>. This potential of entrepreneurship as a career option for female immigrants has yet to be fully recognized by the support infrastructure in Israel.

The entrepreneurial success of immigrant groups is dependent, to a large extent, on the resources available. Immigrant businesses, worldwide, are typically financed by personal capital. In this respect, the current situation in Israel is problematic. One of the principle problems of the last wave of immigration from the former USSR is their lack of financial start-up capital. Nevertheless, this immigrant group is characterized by a high level of human capital. The substitutability of their human capital for financial capital needs to be investigated. However, research suggests that higher levels of entrepreneurial ability require higher levels of financial capital to maximize production<sup>83</sup>. This suggests that the current wave of immigrants may be considerably under-capitalized. In this respect, their entrepreneurial success is largely dependent on the current government policy for small business finance and other public and philanthropic support.

Worldwide, immigrant enterprises have been successful in areas of: international trade, often with their countries of origin; "ethnic" businesses serving co-ethnic customers; and businesses based on the characteristics of the particular immigrant groups, such as the high levels of human capital. Entrepreneurs with low levels of education, mostly succeed in very small businesses. For entrepreneurial groups with high levels of education, entrepreneurship tends to take the form of small firms with a high growth potential. In modern societies, engineers and scientists, not only immigrants, have turned to entrepreneurship, often creating high-tech firms. The high proportion of engineers and technical professionals in the recent wave of

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<sup>82</sup>. Gomelski, 1995.

<sup>83</sup>. Evans and Jovanic, 1989.

immigration to Israel may, if suitably supported, inject new life into this significant sector of the Israeli economy.

For some time, the concept of "ethnicity" was used to characterize immigrant entrepreneurship. Subsequent to recent bodies of research, the more general implications of migrant networks are now used to conceptualize this phenomenon. Experience in many countries has shown the most effective immigrant entrepreneurial support to be provided by independently formed immigrant organizations. Immigrant difficulties with the general system of entrepreneurial support typically include a lack of understanding between agencies and immigrant groups. From research conducted by the authors, areas of conflict between the support infrastructure and potential immigrant entrepreneurs reflect results of immigrants in Holland and Canada<sup>84</sup>. Israeli policy needs to seek more effective means of targeting and supporting immigrant entrepreneurship. Self-organized immigrant initiatives in this area should be acknowledged and possibly integrated into the infrastructure of entrepreneurial support.

There are many areas of future research that may greatly assist in the development of the Israeli support infrastructure. The relative significance of the different entrepreneurial problems described in the literature and the most effective means of tackling them of paramount importance if support systems are to maximize their impact on entrepreneurial activity. Indeed, if resources are to be allocated efficiently, more research and evaluation into the aims and methods employed by projects supporting entrepreneurship must be investigated.

Very little is written in the literature about work methods and the ways that clients are treated and processed. This is of importance as regards the quality of support provided, but also the client perception of support and the likelihood that they will follow the advice given. We again raise the issues of the need for research into the standardization of procedures common to a number of support initiatives, to improve standards and reduce the duplication of support, and the specialization of individual initiatives to better target local needs and specific target groups.

The financial policy supporting entrepreneurial needs to be studied in far more detail. The maximization of entrepreneurial potential and a balanced policy as regards proportions of debt and equity capital are issues of fundamental importance; with respects to the impact on economic growth and the risk of small business failure. In the case of new immigrants from the former Soviet Union, their entrepreneurial potential

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<sup>84</sup>. Allen, 1993; Boissevain, 1984; Boissevain and Grotenberg, 1986.

needs to be determined and successfully exploited. A specifically tailored financial policy is needed that recognizes their special characteristics, including their lack of personal capital and high levels of human capital.

Research efforts should be directed to an understanding of the entrepreneurial potential of target groups and the means of support best suited to their needs. A better understanding of the immigrant economy is needed to improve the effectiveness of support. Investigations in this area should include the identification of those characteristics influencing the success of immigrant businesses. Furthermore, the entrepreneurial activities of immigrant communities in different host countries should be compared, to achieve an understanding of the economic environment on the nature and extent of entrepreneurial activity and success. Specifically, characteristics of the immigrant economy in Israel need to be determined including; consumer markets, typical business strategies (including illegal and legal areas of business) and the economic significance of the immigrant economy.

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# יזמות - תאוריה ומעשה - הזדמנות למהגרים

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## תקציר והמסקנות

החל משנות הששים הפכו "העסקים הקטנים" למרכיב בולט יותר ויותר בכלכלת המדינות המפותחות, תוך קבלת תמיכה ממשלתית רחבה. במסגרת העסקים הקטנים יזמות המהגרים הינה תופעה הנפוצה בכל העולם, זו היא אחת הדרכים המעטות, המאפשרת למהגרים ולילדיהם להגיע לרמה חברתית-כלכלית סבירה.

קבוצות המהגרים השונות מציגות אסטרטגיות דומות בתחום העסקים, למרות ההבדלים הלאומיים והתרבותיים שביניהם. ניתוח הפעילות העסקית של העולים בישראל מראה שקהילת דוברי הרוסית פועלת באסטרטגיות האופייניות למהגרים בעולם כולו. כך למשל, היקף הפעילות העסקית של מהגרים גדול, בדרך כלל, פי שלושה מהיקף הפעילות העסקית בקרב האוכלוסייה המקומית. יחס דומה בין אוכלוסיית העולים לאוכלוסייה המקומית, ניתן למצוא בפעילות המרכזים לתמיכה ביזמות בישראל.

מחקרים, שנעשו במדינות השוק המשותף ובארה"ב, מראים כי קיים מחסום של אי הבנה בין המוסדות הרשמיים, שנועדו לסייע למהגרים, לבין המהגרים עצמם. במובן זה הנתונים שאספנו בחיפה, דומים לתוצאות של מחקרי הפעילות העסקית של מהגרים בהולנד (Netherlands, Boissevain, J.). הנסיון העולמי מעיד על כך שהיזמות העסקית מקבלת את התמיכה היעילה ביותר באמצעות מוסדות המוקמים בתוך ועל ידי חברת המהגרים עצמה. לכן, רצוי כי מדיניות יעילה של תמיכה ביזמות עולים תסתמך על המוסדות והארגונים הפועלים בקרב קהילת העולים מחבר העמים כמו "התאחדות יזמים חדשים".

הצלחת הפעילות העסקית של קהילת מהגרים תלויה במשאבים התרבותיים, החברתיים והכלכליים העומדים לרשותה. הבעיה העיקרית של גל העליה הגדול, שהגיע לישראל עד תחילת תהליך ההפרטה בבריה"מ לשעבר, הינה העדר מוחלט של הון התחלתי. הספרות המקצועית מצביעה על כך שמהגרים הפונים לעסקים מתבססים על הון עצמי או על אמצעים הנאספים בתוך קהילת המהגרים עצמה. ההון היחיד, שניתן היה להוציא מבריה"מ שלפני ההפרטה, הוא "ההון האנושי", כלומר, רמת השכלה והכשרה מקצועית גבוהה. בתנאים מסויימים יכול הון זה להיות מתורגם להון פיננסי. בכל המדינות המפותחות עולה בהתמדה מספר המשכילים כגון מדענים ומהנדסים הפונים לעסקים. ליזמים מן הקבוצה הזו פוטנציאל להקמת מפעלי HiTec שהם בעלי אפשרות צמיחה, בעוד שמהגרים בעלי השכלה בסיסית ותיכונית מצליחים יותר בהקמת עסקים זעירים - עסקים ללא פוטנציאל צמיחה

במדיניות התמיכה בעסקי עולים יש לקחת בחשבון את התחומים בהם יש סיכוי לזמים העולים להצליח, תחומים כאלה הם למשל: 1. סחר בינלאומי בו ניתן לנצל את הקשרים עם ארץ המוצא וארצות הגירה אחרות הדוברות אותה שפה; 2. "עסקים אתניים" - עסקים המספקים את צרכיהם המיוחדים של חברת המהגרים.

העליה מבריה"מ שוברת את הסטריאוטיפים הקיימים בעולם בשל רמת הפעילות העסקית הגבוהה, אפילו בקרב הקבוצות החברתיות החלשות כמו נשים. כבר היום ניתן לדבר על פעילות עסקית בקנה מידה רחב של נשים עולות, למרות שבקהילות המהגרים בעולם משקל פעילותן העסקית של נשים אינו משמעותי ולמעשה חלקן בעסקי המהגרים הוא בהיותן שכירות בעסקים השונים.

בחירת דרכים מתאימות לתמיכה בפעילות עסקית של עולים מקבלת משמעות מכרעת, משום שיזמות עולים פותרת לא רק בעיות של חיזוק הסטטוס החברתי, אלא אף, מסייעת לצמיחה כלכלית בארץ. כלכלת מהגרים מגבירה את האפשרויות הכלכליות של השוק (I.Light, USA).

ההבדלים בפעילות העסקית של קבוצות המהגרים השונות הינם פועל יוצא של שלושה גורמים:

א. המצב בארץ המוצא בטרם ההגירה - מעמד כלכלי חברתי, רמת השכלה והכשרה מקצועית וכו'.

ב. תנאי ההגירה - הגירה במצב של מלחמה או סכסוך צבאי גורמים להווצרות קבוצות פליטים חסרי כל, הגירה מברה"מ לפני או אחרי הפרטה המשנה את מעמדו הכלכלי של המהגר.

ג. המצב שנוצר אחרי ההגירה - תנאי הקליטה של המהגרים במקומם החדש.

אם את שני הגורמים הראשונים אנו מקבלים כנתונים מוגמרים, הרי שעל הגורם השלישי יש לנו יכולת להשפיע ואף לשנותו באופן משמעותי.

המרכיבים החשובים ביותר שישפיעו על הפעילות העסקית של המהגרים הם שוק העבודה השכירה והמדיניות הקיימת של תמיכה ביזמות. אם המצב הכלכלי מאלץ את העולים לחפש אלטרנטיבות לעבודה שכירה, אזי, לטובת המדינה, כדאי לספק להם את האפשרויות המרביות לניצול ההון האנושי שבידיהם בתחום היזמות.

סביר לחשוב כי יזמות העולים החדשים תצמח ותגיעה לשיאה בשנים 1995-96 מאחר ושיא העליה היה בשנים 1990-91, ועל פי המחקרים יזמות בקרב מהגרים מגיעה לשיאה בשנה הרביעית או החמישית להגירתם. בתקופה זו (4-5 שנים מההגירה) מבינים המהגרים את האפשרויות הריאליות העומדות בפניהם בשוק העבודה ומחפשים דרכים חדשות להשיג את מקומם בחברה החדשה.