

Chapter 1

Introduction¹

Cantillon (1755) described entrepreneurs as absorbing uncertainty caused by changing conditions, and thus contributing to the welfare of society. The aristocrat industrialist, Jean Baptiste Say defined the entrepreneur as the agent who “unites all means of production and who finds in the value of the products... the re-establishment of the entire capital he employs, and the value of the wages, the interest, and the rent which he pays, as well as the profits belonging to himself (Say, 1816, pp. 28–29).”

In this book, entrepreneurship refers to economic undertaking; this is based on the classical definition of the word, which can be traced to the German *unternehmung* literally translated as undertaking. The agents of entrepreneurship are entrepreneurs, from the French *entrepreneurs*, literally meaning “between takers.” The flagships of entrepreneurship are small and medium enterprises (SMEs).

While large corporations can greatly increase their efficiency and profitability, by outsourcing to specialised enterprises of lesser scale, entrepreneurs can benefit by focusing on niche markets. When having an economy of scale is not an issue, small firms may even have comparative advantages (*vis-à-vis* larger ones) in assembly, mixing or finishing. Thus, entrepreneurs need not compete with large firms. Instead, large and small firms can form symbiotic relationships, offering complementary services, thus improving a society’s bearing capacity. Given that the flexibility of entrepreneurs, in the absence of excessive bureaucracy, helps them respond quickly to changing needs, entrepreneurship can

¹The chapter draws on previous publications by the same author.



Exhibit 1.1 Agent of Enterprise; photo ©2006 Leo Paul DANA



Exhibit 1.2 Small-scale Retail Operation; photo ©2006 Leo Paul DANA



Exhibit 1.3 Flexible; photo ©2006 Leo Paul DANA



Exhibit 1.4 Decreasing Poverty; photo ©2006 Leo Paul DANA



Exhibit 1.5 India Encourages Cottage Industries; photo ©2006 Leo Paul DANA



Exhibit 1.6 British Colonial Experience in Bombay; photo ©2006 Leo Paul DANA



Exhibit 1.7 French Colonial Experience in Saigon; photo ©2006 Leo Paul DANA

also contribute to social development by providing local employment with relatively low levels of investment.

Today, it is widely accepted that entrepreneurship contributes to development, with a positive effect on society, creating employment, economic expansion, a larger tax base, and more consumer well being. This is increasingly supported by research, and governments around the world have acknowledged this.

Although interest in entrepreneurship as an academic discipline has spanned the globe, the phenomenon itself is expressed differently around the world. Furthermore, each government's policies affect entrepreneurship in different ways.

As will be shown, entrepreneurship differs greatly across Asia. Cultural values, government policy and a variety of other factors, including a nation's colonial experience, affect entrepreneurship.

Even the definition of "small business" varies. In Indonesia, for example, the government defines small industries as units of production with five to 20 workers. In Malaysia, "a small or medium industry" is defined



Exhibit 1.8 Manufacturer in Malaysia; photo ©2006 Leo Paul DANA

as “a manufacturer with up to 2.5 million ringgits in owner’s equity.” Environments with unlike histories and public policies shape entrepreneurship differently.

The East

The East is a career.

— Benjamin Disraeli, Prime Minister of England

The concept of “Asia” originates from the ancient civilisation of Mesopotamia and the eastern shores of the Mediterranean Sea. In Assyrian, *asu* means “east.” It is likely that ancient Greek entrepreneurs adopted the term from Phoenician merchants, thus designating the land to the east. That was probably between 600 and 500 BC.

The Greeks cultivated relations with Asians, and trade expanded considerably. Both land and sea routes were further developed under the Romans,



Exhibit 1.9 French Car in Former French Colony; photo ©2006 Leo Paul DANA



Exhibit 1.10 Lama Temple in Beijing; photo ©2006 Leo Paul DANA

mostly to the Indian sub-continent. The Venetian explorer, Marco Polo, wrote accounts of his 13th century travels to India, China, and beyond. Before the arrival of the Europeans, there were many independent empires in Asia — at least a dozen in south-east Asia alone.



Exhibit 1.11 Hindu Temple in Singapore; photo ©2006 Leo Paul DANA



Exhibit 1.12 Synagogue in Singapore; photo ©2006 Leo Paul DANA

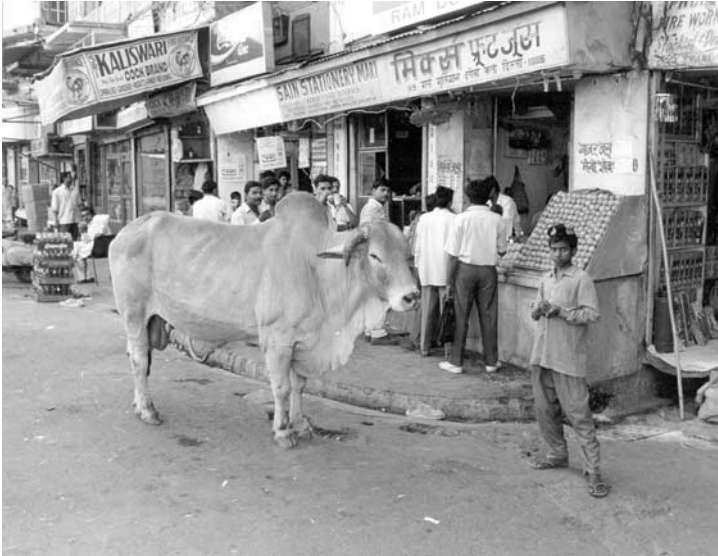


Exhibit 1.13 Cows Are Respected in India; photo ©2006 Leo Paul DANA

Beginning in the 16th century, European colonialism began to impose a new economic structure, and new patterns of trade emerged. Coffee, rubber and tea plantations were introduced. These being labour-intensive, workers were imported, thereby causing significant demographic shifts and changing ethnic distribution. Whereas Asia had formerly exported finished products, the colonies became exporters of raw materials and importers of manufactured goods. The emphasis on cash crops caused a move away from traditional self-sufficiency.

The mid-20th century saw a return to independence. In 1944, the Japanese declared Indonesia independent, effective at the termination of the war. The independence of the Philippines was declared on July 4, 1946. Ho Chi Minh declared Vietnam independent, on September 2, 1946. Laos, which was declared an associate state of the French Union in 1949, was granted full independence in 1953. Also in 1953, Cambodia declared its independence, which was recognised in 1954. Malaya became independent in 1957. Singapore obtained self-government from London in 1959, and independence from Malaysia, in 1965. However, nations continued to be influenced by their historical experiences.



Exhibit 1.14 China; photo ©2006 Leo Paul DANA



Exhibit 1.15 India; photo ©2006 Leo Paul DANA



Exhibit 1.16 Malaysia; photo ©2006 Leo Paul DANA



Exhibit 1.17 Singapore; photo ©2006 Leo Paul DANA



Exhibit 1.18 Thailand; photo ©2006 Leo Paul DANA

Cultural and religious differences are also important. Mahayana Buddhists (of the northern school) adopted the name “Greater Vehicle.” They called the Theravada (southern) school the “Lesser Vehicle.” The state religion in Cambodia is Hinayana Buddhism. In contrast, the principal religion of Vietnam is Mahayana Buddhism. In Tibet, the *Srunmas* are guardians of their faith.² In Malaysia, the religion is Islam. Singapore is officially multi-denominational, recognising Baha’i, Buddhist, Christian, Hindu, Jewish, Muslim, Sikh, Taoist and Zoroastrian religions.

Asia covers more area than North America, Europe and Australia combined. Nations of western Asia — Israel, Jordan, Lebanon, Palestine, Syria, and Turkey — are treated in Dana (2000b). Countries of Central Asia — Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan — are the focus of Dana (2002). The geographic focus of this book is the group of East Asian countries from India to Japan, including Cambodia, China,

²See Rock (1935).



Exhibit 1.19 Vietnam; photo ©2006 Leo Paul DANA

Indonesia, Korea, Laos, Malaysia, Myanmar, Nepal, the Philippines, Singapore, Taiwan, Thailand, and Vietnam.

Heterogeneity

Westerners sometimes speak of an Asian model of business or management, without considering the wide divergence within this vast geographic region. Yet, entrepreneurship, today, is shaped by cultural and historical factors. Not surprisingly, peoples with unlike experiences exhibit different approaches to management and entrepreneurship.

The Chinese and Indian minorities in Pacific Asia demonstrated a strong propensity for entrepreneurship. The same is true for Jews from Iraq and also for Armenians. Some chose entrepreneurship because they were unable to integrate into their host society; others did so because cultural values made it socially desirable for them. In other cultures, entrepreneurship is considered to be a less desirable option. Haley and Haley (1998) wrote that while merchants are exalted in Japanese culture, they are reviled in Chinese tradition.



Exhibit 1.20 Peddlers with Shoulder-Poles in Vietnam; photo ©2006 Leo Paul DANA

Attitudes toward entrepreneurship and entrepreneurs vary not only among countries but also within them. There are important differences among people of one nation. Goodnow suggested that the physical environment was among the causal variables, and he described China as “two countries in one (1927, p. 651).” The Chinese speak a variety of dialects and different dialect groups have their own clan associations, resulting in unique networks of entrepreneurs with distinct patterns of entrepreneurship. While most Chinese in Vietnam are Cantonese, 77% of the Chinese in Cambodia are Teochew, and 85% of the Chinese in the Philippines are Hokkien (Haley, Tan and Haley, 1998).

Within Indonesia, the Balinese are more tolerant of Chinese entrepreneurs than are the orthodox Muslims of Sumatra. Among the Indigenous hill-tribes of Sumatra, women are in charge of possessions, and traditionally a man’s assets were passed on to a sister rather than to a spouse (Moore, 1930).



Exhibit 1.21 Magen Abraham Synagogue of Iraqi Jews in Ahmedabad; photo ©2006 Leo Paul DANA

In Kelantan and in Terengganu — on the east coast of the Malay Peninsula — pork-eating is not tolerated in public, as this act is considered offensive to the Muslims of this Malaysian province. In contrast, compatibility in religion, social customs and culinary habits allowed Chinese entrepreneurs to integrate easily into Thai society.

Also important is the fact that attitudes and behaviours are not always static. About Japan, Griffis wrote, “When feudalism had been abolished, in 1871, and the once-despised merchant was given honor and opportunity, he unfolded the pinions of a towering ambition and looked abroad to capture the markets of Asia (1923, p. 419).”

A characteristic which reappears across Asia is the existence of entrepreneurship networks that bind together entrepreneurs, based on trust. Numerous enterprises work together as a team, with little concern about core competencies. Group conformity prevails over individualism, and relationships



Exhibit 1.22 Well-networked in Beijing; photo ©2006 Leo Paul DANA



Exhibit 1.23 Sub-contracting; photo ©2006 Leo Paul DANA

prevail over constraints. Entrepreneurship networks transcend the limits of a small-scale enterprise.

Redding (1990) focused on Chinese enterprise — prominent in East Asia. The economic dominance of Chinese entrepreneurs often led to tensions. In response to ethnic discrimination, Chinese entrepreneurs often chose to have a low profile. Rather than develop their own brands, they usually preferred to act as subcontractors, wholesalers and retailers.

As will be shown throughout this book, there is no one best approach to entrepreneurship; rather, different nations adopt policy models, which are relevant to their respective history and culture.

Economic Sectors

Where governments have clung on to socialist ideology, there tends to be a large sector of the economy that is state-controlled, and it operates along side the traditional bazaar and the more modern firm-type sector. It is useful, therefore, to distinguish among these very distinct sectors of economic activity, which co-exist across Asia. The bazaar, the state-controlled planned sector, and the firm-type sector are components of the formal economy, some of the features of which are summarised in Table 1.1.

Table 1.1 Sectors of the Formal Economy

The Bazaar	State-Controlled Planned Sector	Firm-Type Sector
Focus on personal relations	Focus on bureaucracy	Focus on impersonal transactions
Segmentation refers to producers	Segmentation not considered	Segmentation refers to the market
Competition refers to tension between buyer and seller	Competition is deemed unnecessary, as the state declares a monopoly	Competition is an activity which takes place among sellers
Prices are negotiated	Prices are dictated by the state	Prices are indicated by the vendor



Exhibit 1.24 The Bazaar; photo ©2006 Leo Paul DANA



Exhibit 1.25 Among Traders; photo ©2006 Leo Paul DANA

In addition, the parallel economy includes informal economic activity; internal economic activity with no transaction; covert economic activity; and fictitious economic activity. Discussions of these shall follow.

The Bazaar

The bazaar is a social and cultural system, a way of life and a general mode of commercial activity, which has been in existence for millennia. In the bazaar, economic transactions are *not* the focus of activities; instead, the focus is on personal relationships. In this scenario, consumers do not necessarily seek the lowest price or the best quality. An individual gives business to another with whom a relationship has been established, to ensure that this person will reciprocate. *Reciprocal preferential treatment reduces transaction costs.*³ The multiplicity of small-scale transactions, in the bazaar, results in a fractionalisation of risks and therefore of profit margins; the complex balance of credit relationships is carefully managed, as described by Geertz (1963).

Prices in the bazaar are negotiated, as opposed to being specified by the seller. In contrast to the firm-type sector, in which the primary competitive stress is among sellers, the sliding price system of the bazaar results in the primary competitive stress being between buyer and seller (Parsons and Smelzer, 1956). The lack of information results in an imperfect market and with few exceptions, such as basic food staples, retail prices are not indicated; rather, these are determined by negotiations. The customer tests price levels informally, before bargaining begins. It is often the buyer who proposes a price, which is eventually raised. As discussed by Geertz, the “relatively high percentage of wholesale transactions (i.e., transactions in which goods are bought with the express intention to resell them) means that in most cases both buyer and seller are professional traders and the contest is one between experts (1963, p. 33).”

Once a mutually satisfactory transaction has taken place, the establishment of a long-term relationship makes future purchases more pleasurable, and profitable. As noted by Webster (1992), building long-term relationships can be viewed as a social and economic process. Unlike Western relationship

³For a discussion of transaction costs, see Williamson (1985; 1996).

marketing, which is customer-centred, whereby a seller seeks long-term business relationships with clients (Evans and Laskin, 1994; Zineldin, 1998), the focus in the bazaar is on the relationship itself. In the bazaar, *both* the buyer and the seller seek a personal relationship.

Firms in the bazaar are not perceived as rivals of one another. There is minimal — if any — brand differentiation among merchants. Vendors do not necessarily seek to optimise monetary gain. Economic rationality is not always obvious.

In contrast to the Occident, where segmentation refers to the market, in the bazaar economy, segmentation refers to the clustering of producers and retailers; street-names reflect this. In Yangon — formerly Rangoon — the Chamber of Commerce and Industry is located on Merchant Street. The street-map of Hanoi includes Broiled Fish Street, Coffin Street, Fish Sauce Street, Gold Street, Jewellers Street, Paper Street, Silk Street, Sweet Potato Street, and Tin Street. Long gave an account of his observations in Hanoi, “Street names in the teeming native-Chinese section are a guide to the shopper. Each bears the name of the product traditionally sold there — silk, tin, scales, spice, brass, paper, jewelry (1952, pp. 315–316).”

Likewise, Passantino described the bazaar in Kunming, China, “There is also a street of beggars... There are streets for pig auctions and for prostitutes; there is one for banks... (1946, p. 142).” Even today, in the bazaar economy, shops still are clustered according to the goods offered therein.

When examining the bazaar, it is important to understand the relationships among the players within it, their organisation and their economic principles. The bazaar is a hub of information exchange. Buyers and sellers express intentions, and an intricate network of relationships facilitates transactions. As explained by Christian, “News spreads rapidly in a Shan States bazaar. Within the hour I was offered a half a dozen old pistols (1943, p. 504).”

While the entrepreneur described by Schumpeter (1912; 1928; 1934; 1939; 1942; 1947; 1949) is an innovator who causes disequilibrium to profit therefrom, the entrepreneur of the bazaar may simply identify an opportunity for profit — rather than create one. In this way, the entrepreneur of the bazaar corresponds to that of the Austrian school (Kirzner, 1973; 1979; 1982;

1985). Geertz (1963) and Dana (2000b) discuss, in detail, phenomena of the bazaar.

The State-Controlled Planned Sector

In transitional economies, state firms are remnants of the communist model — a doctrine first published in German (Marx and Engels, 1848), in Russian in 1882, and in English in 1888. This model assumed that a central office was in the best position to balance supply and demand. The focus of the state-controlled planned sector is thus neither on transactions nor on relationships, but rather on the state bureaucracy.

When the state produced everything, centralisation ruled out competitors. Barriers to trade, coupled with an import-substitution policy, ensured that competition is not a factor. Since demand exceeded supply, marketing was not necessary and segmentation was not considered. Prices became a function of the government's bureaucracy. Dalgic (1998) reported on an empirical study, which found that state-owned firms had much less of a market orientation, than did private companies.

The Firm-Type Sector

The firm-type sector is an economic institution, which involves a mode of commercial activity such that industry and trade take place primarily within a set of impersonally defined institutions, grouping people according to organisation and specialisation. It is assumed that profit-maximising transactions will occur based on rational decision-making, rather than the nature of personal relationships. The focus is transactions and these tend to be impersonal. Weber's (1924) thesis applies here.

In this sector of the economy, the decision space is occupied by product attributes; the buyer and seller are secondary, if not trivial, to the transaction decision. The interaction between the buyer and the product is deemed more important than that between the buyer and the seller. Transactions are based on economic rationality and are therefore impersonal in nature. Competition is an activity that takes place between sellers, who engage in segmentation, in



Exhibit 1.26 Small-scale Industry in Chennai (Formerly Madras); photo ©2006 Leo Paul DANA

order to partition the market into like-groups of predictable consumers. Prices are tagged, reflecting market forces.

While Western marketing principles (Gronroos, 1989) apply to this sector, market-orientation is linked to the maturity of the industrialisation process (Seglin, 1990). Where industrial development is limited, the framework for economic transition may have to rely more on new ventures and on joint initiatives.

The Parallel Economy

Under central planning, the lack of a legal market economy led to permanent shortages. Survival strategies often involved the emergence of entrepreneurs

in the parallel economy, where inefficient regulations could be circumvented. According to Grossman (1977), this underground activity increased the overall efficiency of resource allocation under central planning. The problem is that a mindset evolved, equating efficiency with the evasion of regulation.

Recent years have been characterised by economic reform, regulatory reform, and change in the mindset of people. However, change in mindset has not kept up with changes in regulatory framework (North, 1990). Since these have not been evolving at the same pace, new problems have become associated with transition. As a consequence of their experience under central planning, people came to equate entrepreneurship with the avoidance of communist law. When new regulations were introduced to usher in market economics, people continued to circumvent business law. As noted by Feige and Ott (1999), during transition, evasion and non-compliance with new rules renders them ineffective. Thus, where economic reform has been faster than the ability of people to adapt, inertia has delayed actual transition. Štulhofer (1999) used the term “*cultura inertia*” to describe a collectivist legacy that has survived from the past. Especially among the elderly, there is still a distrust of the state, of banks and of legal institutions. Conditions in transitional economies thus make the parallel sector very popular, avoiding all forms of taxation. In transitional economies that lack developed market institutions, it is common to have a high proportion of underground activities. O’Driscoll, Holmes and Kirkpatrick (2001) reported a black market in Laos, larger than the formal economy.

The popularity of the parallel economy is no surprise, considering the low initial role of legitimate private enterprise, coupled with a high degree of liberalisation, and hindered by the lack of macro-stability in the absence of a sufficiently developed legal framework. As illustrated in Table 1.2, the parallel economy may be informal; internal; covert; or fictitious.

Informal Economic Activity

Barter, selling from an impromptu stall and itinerant vending are considered forms of informal economic activity. Unrecorded cash sales circumvent taxation as well as regulation.

Table 1.2 Activities of the Parallel Economy

Category	Examples
Informal Economic Activity (with business transaction)	Barter, street vending, unrecorded cash sales
Internal Economic Activity (with no business transaction)	Subsistence agriculture, hunting, fishing
Covert Economic Activity (with illegal business transaction)	Prostitution, smuggling, trade in illegal drugs
Fictitious Economic Activity	Foreign devil company

**Exhibit 1.27** Unrecorded; photo ©2006 Leo Paul DANA

In some economies, private enterprise is concentrated in the informal sector. This is illustrated by the large numbers of self-employed vendors in the profitable distribution of goods and services. The law is often bent, but authorities generally tolerate the sector. A relevant discussion from Dana (1992) is presented concisely by Chamard and Christie (1996).

For some entrepreneurs in transitional economies, legal transactions may be limited to informal barter. The transition from such a traditional system

to a modern cash economy will require cognitive innovation. A prerequisite will be for people to internalise new notions of measurability, to encourage the use of cash. New elements of formality, and impersonal structure, will have to be introduced and internalised, before new institutions can function effectively. At the World Economic Forum in Davos, Somavia (2006) argued that cultural barriers often hinder transition from the informal economy to the formal sector.

Internal Economic Activity

This category of economic activity is best described as internal, because *no business transaction* takes place. Wealth is created, but nothing is sold for profit. That which is created is consumed or saved for personal use. In transitional economies, internal subsistence activity is often necessary, as a means to adapt to rapid reform.

Examples of internal economic activity include subsistence agriculture, and subsistence fishing. Both are legal, but involve no market transaction external to the producer. These are, therefore, forms of internal economic activity.

While internal economic activity exists, as an activity of choice — even amid the most advanced and industrialised backdrop (Dana, 1995a) — for some people in transitional economies, this is the only strategy for survival.

Covert Economic Activity

This category of economic activity involves business transactions, which are illegal, and therefore conducted in a covert way, in order to avoid punitive measures from law-enforcing authorities (Haskell and Yablonsky, 1974; Henry, 1978). Prostitution, which Cantillon (1755) considered a form of entrepreneurship, often falls in this category.

Covert activity promises fast cash. Glinkina (1999) predicted the growth of covert economic activity, in some environments. In Cambodia, illegal

logging has been an economically significant covert activity. In Myanmar, smuggling has been on the rise (O'Driscoll, Holmes and Kirkpatrick, 2001).

Fictitious Economic Activity

Fictitious economy has been created to facilitate circumvention of the law; this “implies speculative transactions and different kinds of swindles with a view to receiving and transferring money, including contrived rent-seeking (Glinkina, 1999, p. 102).” In Vietnam, for instance, “foreign devil” companies have been used to set up fictitious economic activity.

Melting Pot Pluralism and Structural Pluralism

Where groups with unlike spheres of values co-exist, the result is a pluralistic society. Norwegian anthropologist Frederik Barth⁴ placed great emphasis on the existence of different spheres of values. Central to his discussion is the concept of the entrepreneur being an essential broker, mediating boundary transfers in this situation of contacts between cultures. By being active in the transformation of a community, entrepreneurs are the social agents of change.

Enterprise is very much influenced by the nature of pluralism. It is, therefore, important to distinguish between **melting pot pluralism**, and **structural pluralism**. When people, from different cultures, share activities in a secular mainstream arena, the expression of cultural differences tends to be limited to private life. Often, employment is shared in a common sphere of life, while cuisine, customs, languages and religion are a domestic concern. This form of socio-economic pluralism is referred to as **melting pot pluralism**, and this is descriptive of the situation in Singapore.

In contrast, **structural pluralism** involves a society with different cultures that do *not* share a secular mainstream arena. In such a case, there is minimal interaction across cultures. Rather, each ethnic group has its distinct institutions, and members of a given community have a lifestyle that is incompatible

⁴See Barth (1963; 1966; 1967a; 1967b; 1981).



Exhibit 1.28 Multilingual Trader; photo ©2006 Leo Paul DANA

with that of people from other backgrounds. This type of pluralism is prevalent in Xinjiang (China).

Toward an Understanding of Transition

Cambodia, China, Laos, Myanmar and Vietnam are among many countries referred to as being in transition to a market economy. As China prospers, it is useful to keep in mind that transition requires more than funding and infrastructure. Transition also involves mindset. Business takes place between people, and the interaction between the parties does not take place in a vacuum, but rather it is part of a social system, as discussed by Hakansson (1982).

Central to transactions are the cultural assumptions of a social system. In the West, these are implicit because it is assumed that everyone knows about them; marketing takes place in the context of a firm-type economy. In transitional economies, environmental factors must not be ignored. As discussed by Huntington (1996), globalisation has not led to a single world culture.

The move to a market economy — transition — is process-driven, and this necessitates the understanding of people and their culture. The focus of the following chapter, therefore, is culture.



Exhibit 1.29 Far from Globalisation; photo ©2006 Leo Paul DANA

Throughout this book, unless otherwise specified, statistics were provided by government sources. The symbols \$ and ¢ refer to the currency of the United States.