Chapter 1

Introduction: Context, issues and case study selection

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Entrepreneurship in action 1.1

Sir Stelios Haji-Ioannou and easyJet

EasyJet Airline Company Limited (referred to as easyJet) is a British airline headquartered in London Luton Airport. At 6.50 on 10 November 1995 easyJet’s first flight took off from Luton in England to Glasgow in Scotland. Incorporated earlier during the same year by Stelios Haji-Ioannou, easyJet began operations by taking customer bookings through its telephone reservation centre at easyLand (i.e., home of easyJet at London Luton airport), prior to the business going virtual in 1998. Stelios wanted to provide low-cost scheduled air travel on short haul routes within Europe. He supported his venture with the advertisement that stated, ‘making flying as affordable as a pair of jeans – £29 one way’. Stelios encouraged airline passengers to ‘cut out the travel agent’. On 5 November 2000 easyJet was floated on the London Stock Exchange. Today his dream has materialised into a pan-European airline with links to 100 airports in a network which flew 50 million seats in 2008, reporting £2,363 million and £123 million in sales revenue and pre-tax profit, respectively. EasyJet has 20 bases throughout Europe and the hub is London Gatwick. In 2009, easyJet carried 45.2 million passengers and behind Ryanair the company is the second-largest low-cost carrier in Europe.

Born on 14 February 1967 to Greek Cypriot shipping tycoon Loucas Haji-Ioannou and Nedi Haji-Ioannou, Stelios was the second of three children. He grew up amongst the privately-owned fleet of ships witnessing his entrepreneurial father dominate the global shipping industry for the latter half of the twentieth century. After finishing his secondary education at Doukas High School in Athens, Greece, Stelios moved to London in 1984 to continue his undergraduate education at the London School of Economics. In London, he then pursued an MSc in Shipping, Trade and Finance from Cass Business School. Due to his entrepreneurial success Stelios has subsequently been awarded a total of four honorary doctorates from Liverpool John Moores University, Cass Business School, Newcastle Business School and Cranfield University, and he was awarded a knighthood.

After a short stint working in his father’s shipping company, Troodos Shipping Co. Ltd, Stelios successfully negotiated a $30 million payout from his father to fund his own shipping company called Stelmar Shipping. Contrary to popular belief, this was his maiden entrepreneurial expedition. In 2001, he floated Stelmar on the New York Stock Exchange. Stelios sold the company in 2005 to the rival OSG shipping group for $1.3 billion, which generated tremendous personal wealth for Stelios.

Stelios admired his father’s success but was determined to be independent. Modestly apologetic about his wealthy upbringing Stelios asserted: ‘I always respect self-made people more than rich boys like me. I cheated because I got money from my father. Then again, when you’re 28 and you want to start an airline; and your last name’s unpronounceable venture capitalists aren’t going to give you any money!’

Although Stelios went on to create a number of other businesses, many of them linked to travel, easyJet is his most successful endeavour. While Stelmar proved the credibility of Stelios as an entrepreneur, easyJet has confirmed his ability as a habitual entrepreneur [i.e., creating multiple businesses].

Entrepreneurship is a hot topic

The experience of Sir Stelios Haji-Ioannou and easyJet in Entrepreneurship in action 1.1 provides a graphic illustration of the impact that entrepreneurs can make in creating a new venture that helped change fundamentally the rules of the game in the airline market. But entrepreneurship takes a variety of forms and appears in both small and large firms, in new firms and established family firms, in the formal and informal economy, in legal and illegal activities, in innovative and more conventional concerns and in all regions and economic sub-sectors (Organisation for Economic Co-Operation and Development (OECD), 1998: 35). Entrepreneurial events, such as the formation and development of businesses to pursue an opportunity, attract interest from policy-makers and practitioners (Department of Trade and Industry (DTI), 2004). The entrepreneurial function is widely viewed as a vital component in the process of economic growth (Baumol, 1968). The OECD (1998: 12) asserted:

Entrepreneurship is central to the functioning of market economies. Entrepreneurs are agents of change and growth in a market economy and they can act to accelerate the generation, dissemination and application of innovative ideas. In doing so, they not only ensure that efficient use is made of resources, but also expand the boundaries of economic activity. Entrepreneurs not only seek out and identify potentially profitable economic opportunities but are also willing to take risks to see if their hunches are right. While not all entrepreneurs succeed, a country with a lot of entrepreneurial activity is likely to be constantly generating new or improved products and services.

Policy-makers and practitioners are seeking to promote the supply of entrepreneurs in order to encourage economic benefits such as wealth creation, job generation and competition as well as social benefits (i.e., choice and opportunity for under-represented groups in enterprise societies such as women, young people, ethnic minorities, etc.). Promoting entrepreneurship is part of a formula aimed at reconciling economic success with social cohesion (OECD, 1998).

Small and medium-sized enterprises (SMEs) account for the vast majority of businesses in most countries. Yet only a small proportion of new firms enter a high growth trajectory like easyJet, providing a substantial contribution to jobs and sales (Storey, 1994). Entrepreneurs establish new and smaller firms for a variety of reasons, and not solely to satisfy the goals of policy-makers (see Case 1, IPS Communication – Distribution: Claude Guinet's career in entrepreneurship). Notably, entrepreneurs may want to maintain independence and control (Birley and Westhead, 1994). Some entrepreneurs may focus on lifestyle objectives rather than profit making, professional management and job generation (Westhead and Howorth, 2007).

Attention should, therefore, be directed towards a greater appreciation of the attitudinal, resource, operational and strategic barriers to business formation and development, as well as the resources and strategies selected by different types of entrepreneurs to grow their ventures (Westhead, 1995). The economic outputs (e.g., prices, competition, innovation, job generation, wealth creation, balance of payments, etc.) made by different types of entrepreneurs and organisations need to be understood.
The entrepreneurial process involving all the functions, activities, and actions associated with the perception of opportunities, and the creation of organisations to pursue them (Bygrave and Hofer, 1991) has generated considerable academic interest. There is no agreed definition of entrepreneurship. Further, there is concern over what entrepreneurship constitutes as a field of study (Gartner, 2001; Busenitz et al., 2003). In order to promote the study of entrepreneurship, academics have utilised a wide variety of definitions. It is, however, widely recognised that entrepreneurship involves the creation of new businesses and the development of new and established firms.

To encourage the advancement and propagation of knowledge in the field of entrepreneurship (Low and MacMillan, 1988), Ucbasaran et al. (2001) have emphasised the need to consider the contextual and process issues associated with entrepreneurship. The context of the entrepreneurial phenomenon can be discussed not only in terms of the creation of new independent firms, but also in terms of corporate ventures, management buyouts and buyins, social enterprises, and the inheritance and development of family firms. Studies have revealed that entrepreneurs are not a homogeneous entity and different types of entrepreneurs exist (Woo et al., 1991; Chapters 5 and 6 of this book). Sir Stelios Haji-Ioannou represents a good example of a habitual entrepreneur who has created many businesses (see Chapter 5). The processes associated with the entrepreneurial phenomenon can be discussed with regard to opportunity recognition and exploitation by entrepreneurs; ability based on skills, competencies and knowledge; and ability to obtain resources and coordinate scarce resources (Shane and Venkataraman, 2000).

There has been concern that entrepreneurship is a fragmented field (Ucbasaran et al., 2001; Schildt et al., 2006), and this fragmentation may hinder scholarly development and legitimisation of the field. However, there is evidence of maturity and convergence in entrepreneurship as a set of codified theories, models, methods, and measures that direct the research agenda emerge (Grégoire et al., 2006). With reference to the citation patterns of entrepreneurship articles published in the years 2000 to 2004, Schildt et al. (2006) detected that the ten most frequently cited themes relate to:

- societal consequences of entrepreneurship (see Chapter 2);
- conceptualisation of the entrepreneurial process (see Chapter 3);
- alertness, opportunity creation and creative destruction (see Chapter 3);
- psychological characteristics of entrepreneurs (see Chapter 4);
- entrepreneurial networks and resource accumulation (see Chapters 3, 5, 6 and 10);
- corporate entrepreneurship and venturing (see Chapter 8);
- born-global firms (see Chapter 13); and
- entrepreneurial firm survival and growth (see Chapters 13 and 14).

The following themes have also attracted considerable attention:

- risk-taking among entrepreneurs (see Chapter 3);
- organisational (entrepreneur) learning and problem-solving (see Chapter 5);
- trust and relational capital (see Chapter 5);
- leadership and management teams (see Chapters 6, 7, 8 and 9);
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- organisational decision-making (see Chapter 6, 7, 8, 9 and 14);
- knowledge-based view of the firm (see Chapter 6);
- high-technology entrepreneurship (see Chapter 6);
- environmental determinants of entrepreneurial success (see Chapter 11);
- institutions and institutional entrepreneurship (see Chapters 6, 11 and 12).

Chapters in this text key into established and emerging dominant themes within the field of entrepreneurship, which are being explored using a variety of theoretical and methodological lenses (Busenitz et al., 2003; Gartner et al., 2006). Markedly different lists of key articles and scholars in the field of entrepreneurship have, however, recently been presented (Cornelius et al., 2006; Reader and Watkins, 2006).

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Recognition that entrepreneurship is the oxygen that ensures national, local and economic development as well as facilitating social cohesion linked to personal choice and empowerment for disadvantaged members of society (OECD, 1998; DTI, 2004), has led to a massive growth in entrepreneurship teaching (Gorman et al., 1997). In the United Kingdom, for example, this has been aided by funding through the Department of Trade and Industry’s Science Enterprise Challenge Fund Centres, which has encouraged more engineering and science students to consider business ownership as a career option. The Lambert Review (2003) has further emphasised that science and technology students need to accumulate entrepreneurial skills. Arts students in the United Kingdom are also being encouraged to accumulate entrepreneurial skills to enter creative industries (Department for Culture, Media and Sport (DCMS), 2006) (see the example of Kylie Minogue the diva and entrepreneur in Entrepreneurship in action 1.2). Throughout Europe, the European Commission is seeking to facilitate the ‘fostering of entrepreneurial mindsets’ throughout society (European Union, 2000; Hannon, 2007).

Why entrepreneurship should be seen as different from other subjects is quite baffling. Yet, there is debate on whether students can be taught how to become entrepreneurs (Fiet, 2000). Evaluation is difficult because there is a lack of clarity about what is meant by an enterprise culture (Della-Giusta and King, 2006), and the definition of the skills required for enterprise. Jack and Anderson (2001) suggest that teaching entrepreneurship is difficult because the entrepreneurial process (i.e., imagination, creativity, innovativeness, creating and/or identifying resources, assembling and managing resources, etc.) involves both an ‘art’ (i.e., the creative and innovative attributes) and a ‘science’ (i.e., functional skills of business and management). Numerous business and management schools worldwide (Solomon, 2007) now deliver an array of entrepreneurship and small business modules at various levels. There is growing appreciation that even more institutions should provide entrepreneurship and small business modules. Programmes are now being designed for non-business students (i.e., arts, media, design, science and engineering students). Evidence from the United States suggests that
there is still a demand for ‘business plan’/‘new venture plan’ modules that require evidence to guide:

teaching the nuts and bolts of entrepreneurship and small business management (Solomon, 2007: 179).

There is, however, a growing need to craft courses and programmes that meet the rigours of academia, while keeping a reality-based focus and entrepreneurial climate in the learning experience environment.

A common element of most entrepreneurship and small business management modules is the exploration of case studies to illustrate how problems and opportunities are addressed by real entrepreneurs. Case studies can illustrate the ‘art’ (i.e., the creativity,
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imagination, innovativeness and problem-solving skills) (Lumsdaine and Binks, 2003) and 'science' (i.e., strategy, planning, marketing, financial, project management, time management, leadership, motivation, delegation, communication and negotiation skills) (Westhead and Matlay, 2006; Wickham, 2006) skills and capabilities that have to be accumulated and leveraged by entrepreneurs.

Numerous practical, theoretical and policy books are available relating to entrepreneurship and small business developmental issues (Storey, 1994; President and Fellows of Harvard College, 1999; Bolton and Thompson, 2000; Bridge et al., 2003; Kirby, 2003; Lumsdaine and Binks, 2003; Kuratko and Hodgetts, 2004; Carter and Jones-Evans, 2006; Deakins and Freel, 2006; Wickham, 2006; Burns, 2007; Storey and Greene, 2010). Most books generally focus on small business issues, or solely discuss how to establish a new business. A distinction can be made between practically orientated books as opposed to theoretical and policy orientated books. Both streams of textbooks seek to illustrate key issues with regard to very brief case study examples. In many instances, the case studies appear as an afterthought to illustrate how theoretical or practical issues are actually exhibited by real entrepreneurs and businesses.

This text and case study collection is designed to meet the need for an accessible resource that will stimulate critical thinking and reflective learning relating to issues generally abstractly (and briefly) discussed in lectures. In addition, it will be useful in seminars focusing on key issues that need to be considered with regard to an idea and/or a business plan module, as well as theory or policy orientated entrepreneurship and small business modules. Our aim is to provide undergraduate and postgraduate students, as well as academics, policy-makers and practitioners, with deeper insights into the entrepreneurial and wealth-creating processes, as well as the processes relating to small business development. Case studies are linked to clear learning outcomes that are stated prior to the presentation of each case study. A separate teaching note solely available to module convenors and tutors will guide students through the issues that need to be considered. Students are encouraged to read one or more of the longer cases for each chapter, presented at the end of the book. Some cases relate to more than one theme. The 25 longer cases are listed in Table 1.1.

We do not provide an exhaustive review of all themes in the field of entrepreneurship and small business development, or a detailed discussion of all tools that can be used to generate and exploit business opportunities. This textbook provides contextual evidence relating to the actual behaviour of real entrepreneurs and organisations, like Sir Stelios Haji-Ioannou and easyJet, and it complements materials available elsewhere. Articles included within the Carter and Jones-Evans (2006) edited edition, for example, cover many important themes and illustrate patterns and behaviour with regard to entrepreneurs and their organisations. Several edited volumes of general readings also focus upon entrepreneurship and small business development (Casson, 1990; Acs, 1996; Birley, 1998; Storey, 2000; Westhead and Wright, 2000; Hitt and Ireland, 2005; Casson et al., 2006; Cuervo et al., 2008; Storey and Greene, 2010), as do readings relating to new firm formation (Davidsson, 2006a), technological entrepreneurship (Siegel, 2006), management buyouts (Wright and Bruining, 2008), family firms (Poutziouris et al., 2006), female entrepreneurship (Brush et al., 2006) and international entrepreneurship (Dana, 2004).
## Table 1.1 Case studies and linkage to chapters

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<td>Spin-offs at Tremcar: Partnerships for growth</td>
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1.4 The organising framework

Themes explored in this book illustrate developments in the field of entrepreneurship. A broad view of entrepreneurship is operationalised. Gartner (1985) presented a conceptual framework for describing the phenomenon of new venture creation that integrated four major perspectives in entrepreneurship: the characteristics of the individual(s) starting the new venture; the organisation they create; the environment surrounding the new venture; and the process by which the new venture is created. Guided by these insights, the six themes within the emerging stream entrepreneurship studies highlighted by Ucbasaran et al. (2001) are drawn upon in the chapters presented here. Short entrepreneurship in action vignettes and longer cases are linked to one or more of the six themes highlighted in Figure 1.1. The themes are as follows:

- **Theme 1: Theory.** Cases can be linked to economic, psychological, cognitive, sociological, and opportunity identification and exploitation theories exploring the entrepreneurial process and the behaviour and performance of entrepreneurs and their organisations. Entrepreneur and/or organisation resources and behaviour are illustrated in contrasting industrial, locational, national and cultural contexts.
- **Theme 2: Types of entrepreneur** are examined in terms of academic, novice, serial, portfolio and social entrepreneurs.
- **Theme 3: The process of entrepreneurship** is examined in terms of opportunity creation, recognition, information search and learning, and resource acquisition and leverage as well as the competitive strategies selected by entrepreneurs. Methods of best entrepreneur and business practice are illustrated.

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**Figure 1.1** The focus of entrepreneurship research

Source: Ucbasaran et al. (2001, Figure 1.59).
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- **Theme 4: Organisational types.** Organisational modes selected by entrepreneurs are examined, including family firms, corporate entrepreneurship, management buyouts and social enterprises.

- **Theme 5: The external environment for entrepreneurship.** Governments in developed and developing economies have introduced policies to address attitudinal, resource, operational and strategic barriers to business formation and development. The merits and disadvantages of targeted and customised support to entrepreneurs and firms are being considered by practitioners. Case studies from the United Kingdom and United States are presented as well as other institutional contexts such as emerging economies.

- **Theme 6: Outcomes of entrepreneurial endeavours.** The economic and non-economic outcomes of entrepreneurial endeavours are illustrated with reference to the entrepreneur and firm units of analysis. The issue of entrepreneurial learning is discussed throughout the book.

Text, short entrepreneurship in action vignettes and longer cases illustrate the dynamics of entrepreneurs and the organisations they own. Evidence relating to the actual resources and behaviour of different types of entrepreneurs and organisations are illustrated. We highlight that the ‘entrepreneur’ and the ‘organisation’ should be the unit of academic and policy analysis. We explore the behaviour of entrepreneurs and illustrate how entrepreneurs acquire information, how they learn from their entrepreneurial experiences, and how they utilise acquired knowledge to develop their organisations. A distinction between different ‘types’ of entrepreneurs and organisations is highlighted in several national contexts. Methods of best entrepreneur (and organisation) practice in relation to imagination, creativity and innovation as well as methods to address barriers to enterprise and business development are raised. Several cases highlight that the entrepreneurial process can be moderated by external environmental conditions. Outcomes associated with contrasting enterprise and competitive strategies are illustrated.

1.5 Learning issues

This book seeks to develop an understanding of entrepreneurs and the organisations they create, own, manage, develop and exit. It is designed to:

- provide an understanding of the nature, role and functions of different types of entrepreneurs and organisations owned by entrepreneurs;
- examine the characteristics, attributes and resources of different types of entrepreneurs;
- demonstrate the variety of forms of entrepreneurial processes relating to new firm creation, enterprise within larger firms, business development and exit route selection;
- critically consider the array of factors associated with enterprise development;
- demonstrate the influence of external environmental conditions, including public policy, on the entrepreneurial process;
- highlight the barriers faced by entrepreneurs and discuss methods selected by entrepreneurs to address identified barriers; and
- highlight practical issues that need to be considered to create, identify, evaluate, pursue and exploit a business opportunity.
In the following chapters, text, short case study entrepreneurship in action vignettes and longer cases are presented to highlight key issues relating to entrepreneur and organisation behaviour. The broad purpose of each chapter and its associated cases is to enable the reader to:

- acquire an understanding of practical and policy debates in developed and emerging economies (i.e., Europe, North America, Scandinavia, China and Russia);
- think critically about the concepts presented in each case;
- think critically about the practical options available; and
- use the case studies to formulate and guide their individual studies for a dissertation and/or assignments.

Each chapter will review the literature relating to the selected theme. Key issues will be highlighted and they will be illustrated in the cases, which will 'talk' and exhibit people, pattern and process issues.

Short entrepreneurship in action vignettes and longer cases illustrate issues that students have to consider with regard to both the 'art' (i.e., the creative and innovative attributes) and the 'science' (i.e., business and management functional skills) of entrepreneurship and small business development. Cases illustrate 'how' and 'why' entrepreneurs and their organisations behave as they do in relation to the creation, pursuit and exploitation of opportunities. Several cases highlight key practical and/or policy issues. Longer case study authors make linkages to the current body of knowledge to emphasise issues the reader should critically reflect upon. Specific questions are presented at the end of each case to guide students' critical reflection and learning.

Case study authors are drawn from several disciplines. Consequently, alternative practical lenses are exhibited in the cases to explore and critically reflect upon the actual behaviour of entrepreneurs and their organisations. Cases relate to a variety of industrial, locational, national and cultural contexts. Several cases highlight that the institutional context and the profiles of entrepreneurs shape the entrepreneurial process and business development.

Education institutions throughout the world are encouraging Science, Engineering, Media, Art and Design students to participate in entrepreneurship and small business management modules. Selected cases will interest students drawn from a variety of disciplines. The cases explore and illustrate business formation and development issues relating to traditional industries as well as the increasingly important creative, knowledge and technology-based industries. Notably, the cases illustrate the judgements and behaviour of actual entrepreneurs. Further, the cases illustrate the dynamics of entrepreneurs and the organisations they own. Cases illustrate how entrepreneurs acquire information, how they learn from their entrepreneurial experiences, and how they utilise acquired knowledge to develop their organisations. The following important and novel themes are raised in the cases:

- The ways in which entrepreneurs’ attitudes and human capital resources (i.e., specific human capital relating to industry know-how, management know-how, and entrepreneurial capabilities, etc.) can shape the business start-up process and subsequent firm development. Issues relating to the supply of entrepreneurs are, therefore, discussed.
The cases illustrate several dimensions of the entrepreneurial process relating to imagination, creativity and innovation as well as issues relating to information search, opportunity identification, evaluation and pursuit. The increasing importance of international business is also highlighted in several cases.

Obstacles faced by particular types of entrepreneurs (i.e., young and inexperienced entrepreneurs, owners of knowledge-based firms and family firms, social entrepreneurs, as well as female entrepreneurs and experienced portfolio and serial entrepreneurs) are illustrated.

Resource assemblage and leverage issues to exploit an opportunity are explored. The need for teams of entrepreneurs with diverse human capital profiles is highlighted. In addition, the methods used by entrepreneurs to circumvent attitudinal, resource, operational and strategic barriers to firm formation and development are shown. The assets and liabilities associated with solo entrepreneurship as well as team entrepreneurship are highlighted. Further, the accumulation and leverage of social capital (i.e., networking) to address barriers to innovation and firm formation and development is illustrated.

Issues relating to corporate entrepreneurship within existing larger organisations are raised. The academic entrepreneurship context is discussed.

The emerging theme of social entrepreneurship is illustrated.

The external environment for entrepreneurship is considered throughout the book as a moderator that can impact on the behaviour of entrepreneurs and organisations. Cases relate to several national and industrial contexts (i.e., traditional, knowledge and technology-based, creative industries, etc.). The role played by public policy (i.e., provision of grants and advice, education and training) shaping the entrepreneurial process is described.

Outcomes associated with entrepreneurial endeavours are highlighted. Financial and non-financial issues are explored. As entrepreneurship is not a single action event, with some entrepreneurs having careers in entrepreneurship, the habitual entrepreneur phenomenon is illustrated. Several exit routes are open to entrepreneurs. Business transfer issues are highlighted.

After reading the entrepreneurship in action vignettes and the cases the reader should be able to:

- demonstrate a knowledge of issues pertaining to the role, nature and function of the entrepreneur;
- apply various concepts to understanding the needs and contributions made by different ‘types’ of entrepreneurs and organisations;
- demonstrate a knowledge of the stimuli and obstacles (i.e., resource needs) to business formation, purchase and development;
- demonstrate a knowledge of the tools used by entrepreneurs to generate, create, evaluate, pursue and exploit business opportunities;
- demonstrate a knowledge that the external environment (i.e., institutional context) can shape entrepreneurial processes and business development;
- demonstrate knowledge of the tools that can be applied to ensure a firm’s competitive advantage and to address constantly emerging barriers to business development; and
- demonstrate how entrepreneurs learn from their successes as well as their mistakes.
Looking forward

This chapter has highlighted that encouraging entrepreneurship (i.e., innovation, opportunity identification and exploitation, new firm creation, and firm growth in domestic and international markets) in new and established organizations can encourage economic and non-economic benefits to society. Established and emerging themes relating to the entrepreneurial process have been summarised. Key elements of the entrepreneurial process were briefly discussed. A distinction between the ‘art’ and ‘science’ of entrepreneurship was made. The content and structure of the book as well as key learning issues were also discussed. Chapter 2 explores in more detail the economic and non-economic contributions of entrepreneurial firms. Barriers to new private firm formation and business development are summarised. The case for intervention to address barriers (i.e., market failures) to business formation and development is presented. The need to focus on the entrepreneur (as well as the firm) as the unit of analysis in academic and policy studies is raised.

Discussion questions

1. What is entrepreneurship? Discuss the elements of the entrepreneurial process.
2. What are the key elements of the ‘art’ and ‘science’ of entrepreneurship?
3. Why is entrepreneurship important for society?
4. Why do governments in both developed and developing countries attach importance to promoting enterprise?

Recommended further reading


Chapter 2

Contributions of entrepreneurial firms

Contents

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Discussion questions
Recommended further reading
Debate surrounds the economic and non-economic contributions made by entrepreneurs, new firms and a growing stock of entrepreneurial firms (Acs and Storey, 2004; Johnson, 2007). These contributions are summarised in Table 2.1. Entrepreneurial firms are important because they can make several economic and non-economic contributions. They play a role in encouraging economic development (Baumol, 1968; Carree et al., 2007). Entrepreneurial firms have a role in reducing unemployment and poverty (Storey, 1982). They are major creators of new jobs when large firms are downsizing (Birch, 1979), irrespective of the economic cycle (DTI, 2004). Entrepreneurial firms generate wealth creation and the firm, entrepreneur(s) and employees can be taxed. Government can reinvest this taxation into economic development projects (i.e., enterprise and small firms policy and/or other social projects). Entrepreneurial firms are seen as the seeds from which large successful organisations grow (i.e., Microsoft, Cisco Systems, Body Shop, etc.).

Entrepreneurial firms stimulate competition, which limits the ability of dominant firms to raise prices. Competition can lead to a reduction in prices, more consumer choice, encourage the creation and dissemination of new innovative products/services and/or better quality products and services. Moreover, competition encourages more efficient use of resources and the displacement of non-viable inefficient businesses:

If incumbent businesses are unable to match the productivity of new or fast growing small businesses, then they are either forced to exit the market or their market share is reduced, so increasing the productivity of the market as a whole (DTI, 2004: 17).

Viable businesses that are more efficient users of resources will be associated with superior levels of productivity, which can enable them to sustain competitive advantage in local and international markets. Efficient entrepreneurial firms that can internationalise can create jobs and wealth. Internationalising firms are also less likely to displace new and established firms in local markets. Efficient firms can reduce the flow of imports, and they can play a role in reducing balance of payments deficits.
Table 2.1  Entrepreneurial firms: Positive economic and non-economic contributions and negative barriers to enterprise

<table>
<thead>
<tr>
<th>Positive contributions</th>
<th>Negative barriers</th>
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<tbody>
<tr>
<td><strong>Economic</strong></td>
<td></td>
</tr>
<tr>
<td>• Economic development</td>
<td></td>
</tr>
<tr>
<td>• Reduction of unemployment and poverty</td>
<td></td>
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<tr>
<td>• Job generation when large firms are downsizing, irrespective of economic cycle</td>
<td></td>
</tr>
<tr>
<td>• Wealth creation</td>
<td></td>
</tr>
<tr>
<td>• Taxes (firm, entrepreneur and employees) and this tax income can support the economic, social and political agendas of government</td>
<td></td>
</tr>
<tr>
<td>• Entrepreneurial ‘seed’ firms can grow into large ‘oaks’ firms</td>
<td></td>
</tr>
<tr>
<td>• Competitiveness (i.e., reduction of power of large firms, lower prices, better quality products/services, consumer choice, better utilisation of scarce resources, displacement of inefficient firms, etc.)</td>
<td></td>
</tr>
<tr>
<td>• Productivity</td>
<td></td>
</tr>
<tr>
<td>• Large firm competitiveness enhanced by entrepreneurial firms involved in the supply-chain</td>
<td></td>
</tr>
<tr>
<td>• Internationalisation, reduction of flow of imports and balance of payments deficits</td>
<td></td>
</tr>
<tr>
<td>• Radical and incremental innovation, technology; creation of new industries and markets; competitive advantage not solely related to ‘sweating low cost labour’</td>
<td></td>
</tr>
<tr>
<td>• Service role – provision of essential consumer services for ‘quality of life’</td>
<td></td>
</tr>
<tr>
<td>• Harmonious working environment with fewer industrial disputes and lower absenteeism</td>
<td></td>
</tr>
<tr>
<td>• Seedbed role promoting the next generation of entrepreneurs</td>
<td></td>
</tr>
<tr>
<td>• Protection and promotion of local communities</td>
<td></td>
</tr>
<tr>
<td>• Local economic development in inner cities, former coal, fishing, mining and steel communities and peripheral rural communities</td>
<td></td>
</tr>
<tr>
<td>• Multipliers – direct and indirect job generation and wealth creation generated by new clusters of entrepreneurial firms</td>
<td></td>
</tr>
<tr>
<td><strong>Non-economic</strong></td>
<td></td>
</tr>
<tr>
<td>• Reduction of social and regional inequality with regard to access to wealth creation</td>
<td></td>
</tr>
<tr>
<td>• Under-represented groups (i.e., disabled, ethnic minorities, graduates, women, young people, etc.) to select careers in enterprise</td>
<td></td>
</tr>
<tr>
<td>• Empowerment (i.e., independence, control, satisfaction, fulfil family and household responsibilities, etc.)</td>
<td></td>
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<tr>
<td>• Votes – policy-makers supporting enterprise are re-elected</td>
<td></td>
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<tr>
<td><strong>Macro-economic</strong></td>
<td></td>
</tr>
<tr>
<td>Business and personal taxation, interest rates, exchange rates, public spending, inflation policy, regulatory framework</td>
<td></td>
</tr>
<tr>
<td><strong>Cultural barriers and narrow education base</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Advantages of large firms</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Attitudinal barriers</strong></td>
<td></td>
</tr>
<tr>
<td>Reluctance to select a career in enterprise; establish a firm for independence, and/or lifestyle reasons, reluctance to move outside the ‘management comfort zone’; desire for a ‘born small stay small firm’, reluctance to sell equity to ‘outsiders’ and to use ‘external’ professional advice, etc.</td>
<td></td>
</tr>
<tr>
<td><strong>Resource barriers</strong></td>
<td></td>
</tr>
<tr>
<td>Information, finance, premises, skilled labour, machinery, equipment, etc.</td>
<td></td>
</tr>
<tr>
<td><strong>Operational barriers</strong></td>
<td></td>
</tr>
<tr>
<td>Imagination, creativity, innovation (radical or incremental), legitimacy, appropriate administrative, management and production systems, inability to protect the product/service/brand, skills and capabilities deficiencies, etc.</td>
<td></td>
</tr>
<tr>
<td><strong>Strategic barriers</strong></td>
<td></td>
</tr>
<tr>
<td>Focus on low price strategy rather than a premium price strategy, inability to introduce market and/or technological differentiation, inability due to attitudinal and resource deficiencies to create new source(s) of competitive advantage, and/or to proactively adapt to constantly changing market, technological and regulatory conditions, etc.</td>
<td></td>
</tr>
<tr>
<td><strong>Government failure</strong></td>
<td></td>
</tr>
<tr>
<td>Government supports firms that do not require assistance and this assistance does not generate positive externalities</td>
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</tbody>
</table>

Entrepreneurial firms have a key role in introducing new product and process innovations. Some firms play a niche role providing something marginally different. Entrepreneurs with unique scientific or technological knowledge create radical innovations that can lead to the creation of new industries, which can promote economic development
associated with the ‘creative destruction’ of some old industries (Schumpeter, 1934). ‘Born global’ innovative firms can play a role in reducing balance of payments deficits (see Chapter 13). However, only a small proportion of firms are engaged in truly innovative activities (Storey, 1994). Many new and small firms are imitative, and they generally introduce incremental innovations to sustain their competitive advantage.

Most entrepreneurial firms, especially smaller firms, are engaged in the service sector, either servicing private consumers (i.e., catering, retail or repair) or other enterprises (i.e., business services). They provide an essential service role (i.e., personal and community services) to the way of life of many people. The servicing relationship between an entrepreneurial firm and its customers (i.e., subcontracting) can range from co-operation to dependency and exploitation. Entrepreneurial firms support the infrastructural needs of larger firms. Many large firms would not be able to remain profitable without the service provided by new and small firms in their supply-chain (i.e., Nissan in the north-east of England is supplied by small firms who may solely exist to service the needs of Nissan). Entrepreneurial firms indirectly ensure the competitiveness, profitability and contribution to economic development made by major ‘corporate prime movers’.

Entrepreneurial firms, especially small firms, can provide a harmonious working environment that is often reflected in fewer industrial disputes and lower absenteeism. They can provide a nurturing role model and learning environment for potential entrepreneurs (i.e., management, industry and finance know-how, diverse business networks, etc.). An environment that supports individualism and reduces a dependency culture on the state and larger firms can also reduce the power of the trade union movement.

Entrepreneurial firms are developers of the local economy. They make a contribution to the regeneration of deprived rural as well urban communities. New and small entrepreneurial firms frequently service local markets. The entrepreneur(s) may live locally and feel an allegiance to the area where the business is located. They generally employ local people and they use local services and suppliers. This activity can generate local multiplier effects that promote the demand for other potential new firms, which can promote a local spiral of wealth creation and job generation to reduce local unemployment and poverty.

### 2.2 Challenges of entrepreneurial firms

#### 2.2.1 Reluctance or inability of most new and small firms to grow

There are numerous barriers to enterprise (Bridge et al., 2003; DTI, 2004). Broad types of negative barriers to enterprise are summarised in Table 2.1. The attitudes of individuals are a major barrier to new firm creation and development. There are different types of firms and entrepreneurs with most new firms not desiring or reporting significant growth. Most new firms are ‘born to die young’ as most cease to trade within three years of inception (Storey, 1994). The majority of firms that survive are ‘born small and stay small’. Many small firms are more interested in maintaining their current level of profit than in expansion. One reason for firms wishing to stay small is that the ownership and management reside in the same person, or persons; so future firm goals are determined not only by commercial considerations but by personal lifestyles and family factors relating to the individuals or teams of individuals who own and manage them (see Chapter 14). However,
it seems that the proportion of small businesses that want to grow is greater than the numbers that actually do grow (DTI, 2004).

A distinction can be made between 'failures' (i.e., the high proportion of small firms that have a short life), 'trundlers' (i.e., a large group of surviving small firms that remain small), and 'flyers' (i.e., the small proportion of firms that have rapid growth in employment) (Storey, 1994). Firm development may be restricted by entrepreneurs who want to maintain ownership and control of their firms and who may only grow their ventures to an internal 'management comfort zone', which allows owners to maintain control and ownership. Storey et al. (1987) noted that 4 per cent of firms generated 50 per cent of job generation by the firms in the sample over a decade. Similarly, Gallagher and Miller (1991) detected that the high flyers in their sample (18 per cent of firms) accounted for 68 per cent of all jobs created. Policy-makers concerned with job generation, wealth creation, competition, efficient markets, technology diffusion and votes (i.e., re-election) (Storey, 1994) may seek to increase the supply of entrepreneurs and entrepreneurial firms in society because each new firm can play a valuable economic and/or social role, but they particularly want to increase the number of high-growth ventures.

2.2.2 Differences between smaller and larger enterprises

Entrepreneurial firms can be both large and small. Many large enterprises have become so by having been entrepreneurial and growing rapidly, and may continue to be entrepreneurial through continuously investing in innovation, as well as seeking and exploiting new opportunities (see Chapter 8). Not all smaller enterprises are entrepreneurial. Smaller private enterprises cannot therefore be regarded as a homogeneous entity. Further, smaller private enterprises cannot be viewed as scaled down versions of larger enterprises. Smaller private enterprises differ in many respects from larger enterprises. Smaller private enterprises are associated with advantages as well as disadvantages. There are broad differences between smaller and larger enterprises with regard to:

- firm structure,
- management and control,
- operations/production,
- resources,
- strategic planning,
- the market, and
- the business environment,

each of which are briefly discussed in turn, below.

Some smaller entrepreneurial firms are highly flexible because they have loose firm structures. Many smaller enterprises do have an organisational hierarchy, and there is a focus on informal communication within the organisation. A loose structure can generate the following advantages for some smaller private enterprises:

- focus on imagination, creativity, flexibility and/or the ability to make quick decisions to seize opportunities;
- no agency problems because ownership and management are aligned;
- easy access to the owner can generate speed and flexibility in decision-making;
- everyone involved and motivated in the organisation;
- 'family' unit and people are not numbers;
2.2 Challenges of entrepreneurial firms

- structure easy to change in response to changing external environmental conditions;
- no need for memos and time-consuming meetings; and
- accessible and friendly to outsiders, customers, suppliers, etc.

On the downside, a loose structure can generate the following disadvantages for some private smaller enterprises:

- owners may dominate and pursue ‘family’ rather than ‘business’ interests;
- owners may exhibit diminished motivation, blind spots, denial, and/or a focus on lifestyle issues that may retard enterprising behaviour (see Chapter 3) and firm development (see Chapter 14);
- some owners exhibit favouritism with key positions held by ‘family’ members, and this allocation of managerial positions based on kinship ties rather than ability can retard firm performance;
- owners resistant to change may be reluctant to sell equity to ‘outsiders’ and to deal with banks and financial institutions;
- owners seeking to maintain ownership and control may retard venture performance by being resistant to external monitoring, which could improve firm performance;
- some owners have only one good business idea and they may repeat the recipe that worked in the past in changed circumstances;
- some owners are not receptive to technological change and emerging market opportunities; and
- some owners are reluctant to consider and/or apply for external expertise required to ensure enterprising behaviour and venture development.

The management and control of private smaller enterprises can also be associated with the following disadvantages, which can retard continued enterprising behaviour and venture development:

- Some smaller enterprises have a small management team (if they have one at all), and due to the limited expertise and knowledge of management, the firm may be unable to key into emerging profitable opportunities because there is insufficient attention given to imagination, creativity, innovation, spotting gaps in the market, market research, feasibility analysis, reluctance and/or inability to use the latest technologies, and the reluctance or the inability to use ‘external’ professional support.
- In many smaller enterprises, staff have multifunctional roles and firm development can be retarded if there are no clear lines of responsibility.
- In many smaller enterprises, the management focus on day-to-day fire fighting (production) issues, and they do not allocate sufficient time to management thinking that focuses on the long-term and strategic competitive advantage issues.
- Due to cost constraints and/or limited technical knowledge, some smaller enterprises use informal systems and procedures, and there can be a reluctance and/or inability to use more technologically sophisticated formal control tools relating to production, cashflow, quality, etc., which can retard firm survival and development.

With regard to operations and productions issues, some smaller enterprises can seize business opportunities that require low price product or service delivery, flexible service provision, quick speed of service or product delivery, and a focus on service or product design and quality (see the example of Coffee#1 in Entrepreneurship in action 2.1). Flexible entrepreneurial smaller enterprises can provide short production runs for the customers.
It was the growing coffee shop culture in shows like *Friends* and *Frasier* that convinced him to quit investment banking for cappuccinos and muffins. Now, a coffee chain founded 10 years ago by a Welsh entrepreneur, has been named the best in Britain, beating global competitors like Costa at the Café Society Awards in London. The chain, which was founded in Cardiff (in Wales) by James Shapland in 2000, now has 12 branches across South Wales and South-West England. And Mr Shapland said last night the key to the firm’s success is limiting itself to one new shop a year. ‘As a chain, we try not to grow too quickly or people become anonymous,’ said Mr Shapland, who set up the business with chairman, David Jones, a former Microsoft director from Bargoed (in Wales) who now lives in Seattle, a city at the forefront of the global coffee movement. ‘This can happen with bigger companies. Some global chains open a new store every six to seven days, which means they do extremely well in terms of their profits . . . But we try to make things a little more intimate and we try to open a shop once a year. It’s growing but we are people who believe that our chains, although small and local, will be recognised with our name out there . . . The likes of Costa and Starbucks are so powerful with their positions on the high street and their marketing resources, that to be able to be recognised on a simple local level is great. What we are trying to do is offer great coffee and produce and great service. It’s brilliant that an independent judge has come in and recognised our standards.’

Coffee#1 beat the likes of Costa Coffee, Caffé Gusto, Boston Tea Party and Soho Coffee Company to the award, which recognises its innovation, standards and customer satisfaction. It follows success at the Beverage Service Association awards, where it also picked up top prize.

Mr Shapland said his staff play a key role in making the chain a success. ‘We are very lucky that we have a sound mix of great people whom we try to look after,’ he said. Further, ‘I think obviously the core product needs to stand up. We spend an awful lot of time developing a good cup of coffee and we make sure you can taste the coffee, whereas some competitors offer oversized cups which mean you cannot taste the coffee . . . We want people to feel like they have got the value out of their £2 they might spend on coffee.’ He added: ‘We offer warm and friendly customer service and we have an appreciation of customers and we don’t take them for granted . . . We recognise the need to appreciate them and try to make people feel special when they come in – it’s easy to become too manufactured and sterile . . . Customer loyalty is important to us. We like to offer a nice, warm cosy environment where you can sit on comfy sofas and read a good book or have a chat with your friends . . . It’s easy to have a cold feel in some of the competitors’ shops and they can have a dirtiness to them . . . We have clean tables and toilets. I think these factors make for a good experience.’

The company has been growing since 2000 and has featured in the Wales Fast Growth 50 project, an annual search for the 50 fastest growing companies, for three of the past four years.

2.2 Challenges of entrepreneurial firms

- limited focus on quality control mechanisms;
- inability to take advantage of bulk buying; and
- inability to carry stocks.

Many smaller enterprises are established and managed by a ‘solo’ entrepreneur. Team ownership of a venture is usually associated with business activities that require more substantial human and financial resources, for example, knowledge and technology-based activities. The human capital (i.e., management and industry know-how, technical and entrepreneurial capabilities, ability to secure resources, prior business ownership experience, etc.) of the founding entrepreneur (see Section 4.2.2), or the entrepreneurial ownership team, can shape enterprising behaviour as well as business survival and development (Matlay and Westhead, 2005). Smaller private enterprises associated with ‘solo’ entrepreneurs generally have more limited pools of skills, capabilities and knowledge to draw upon to create, spot and seize profitable business opportunities. Many smaller enterprises are disadvantaged because they have small management teams with few or no specialists. Many cash-strapped smaller enterprises have no or limited capacity to develop staff using job-related formal training due to ‘ignorance’ and/or ‘market’ forces reasons (Storey and Westhead, 1997). The inability of entrepreneurs to invest in training people in the smaller enterprises can retard imagination, creativity and innovative behaviour as well as firm development (Cosh et al., 1998).

New firms are generally financed by entrepreneurs who utilise their own (limited) personal savings. Smaller private enterprise survival and development can be retarded by a lack of finance and/or poor cashflow control. Entrepreneurs with no proven track record in business (i.e., they lack credibility) find it difficult to obtain external finance, particularly if the entrepreneur fails to provide complete information in a business plan relating to the risk (i.e., current and future size of the market size, current and future competitive and legislative threats, etc.) and return issues that need to be considered by financiers. Entrepreneurs with limited collateral (i.e., a house) may be denied finance and/or charged very high interest rates with regard to any bank finance provided. Very few smaller enterprises are able to attract venture capital from formal venture capital firms, or even ‘business angels’, because they have limited growth prospects. Mistakes relating to financial management (i.e., high gearing, cashflow problems, over-trading, inability to reduce the problem of trade bill late payment, etc.) in smaller enterprises can be expensive, and can lead to business closure.

Strategic planning to achieve long-term competitive advantage is usually exhibited by larger enterprises, but this is often absent in smaller enterprises. Many smaller enterprises solely focus on low price competition alone to satisfy immediate customer demand. Smaller enterprises are generally associated with the following features, which can retard enterprising behaviour, firm survival and development:

- limited knowledge of the business environment;
- no specialist staff;
- no time for planning;
- short, if any, planning horizon;
- survival/lifestyle perspective rather than a growth perspective;
Chapter 2  Contributions of entrepreneurial firms

- reactive rather than a proactive stance to the external environment; and
- short-term opportunistic stance rather than a long-term strategic competitive advantage stance.

External environmental conditions shape enterprise behaviour as well as firm survival and development (see Chapter 11). Smaller enterprises generally have a limited market share. They also typically have the following features, which can retard firm development:

- small product range;
- limited number and range of customers (especially at business start-up);
- dependence on a single customer or small number of customers;
- limited influence on their market; and
- a tendency to resist change.

With regard to the business environment, smaller enterprises generally perceive the following constraints on business development:

- a business environment hostile to smaller enterprises;
- have no influence on credit/discounts with suppliers;
- have no or little credibility with financial institutions;
- believe they are overwhelmed by government regulation, legislation and paperwork;
- are unaware of most direct (and indirect) government assistance to support smaller enterprises; and
- reluctant to use (and pay) for professional external private and/or public sector advice and support.

Smaller enterprise owners typically blame mistakes on events in the external environment (i.e., attribution theory) rather than mistakes made by themselves. Some owners of smaller enterprises are reluctant to admit mistakes and to learn from their mistakes. To minimise their exposure to risk in the external environmental, many owners of smaller enterprises focus on business survival, independence and/or lifestyle issues rather than the pursuit of rapid business growth, which can involve higher risk exposure as well as more resources and knowledge to be invested by the entrepreneur. Consequently, many surviving small enterprises remain small. Whilst smaller enterprises are associated with numerous advantages, which can be leveraged to ensure competitive advantage, they are also generally associated with several disadvantages relating to firm structure, management and control, operations/production, resources, strategic planning, the market, and the business environment. Practitioners may intervene to reduce the problems faced by smaller enterprises to facilitate the wider benefits associated with creative, innovative, flexible and dynamic and opportunity seeking smaller private enterprises.

2.2.3 Barriers to new and small firm growth

Some new and small firms want to grow but they may be blocked by attitudinal, resource, operational and strategic barriers to business development (see the example of Human
2.2 Challenges of entrepreneurial firms

Firms face market resource barriers to business development (i.e., access to information, finance, premises, training, skills, compliance costs associated with statutory and regulatory administration, etc.) (Bridge et al., 2003; DTI, 2004) (see Case 2, Fickle Rooster Productions: Turning a hobby into a profitable business). Barriers that prevent a level playing field can be termed ‘market failures’. Some entrepreneurs face market failures that can impede business formation and development (Johnson, 2007). The concept of market failure is the notion that markets cannot always be relied upon to deliver outcomes that are optimal from society’s perspective. Where this is the case, there may be a role for government intervention. Intervention will seek to foster the government’s enterprise policy objectives (i.e., wealth creation and job generation and reduction in social inequality). It can also be viewed as a vote-enhancing strategy to maximise a government’s chances of re-election. Many governments encourage private sector organisations to address the barriers faced by new, small and growing firms. For example, property developers are encouraged to provide premises and these sponsored environments can increase the flows of resources to new and growing firms (see Chapter 11) (see the example of Evans Easyspace in Entrepreneurship in action 2.3).
Entrepreneurship in action 2.3
Evans Easyspace: Provision of flexible premises to encourage new firm formation and growth

Evans Easyspace, the Leeds-based provider of flexible workspace for the SME market, has entered into a new deal with European bank Eurohypo AG. The agreement sees an increased facility of up to £150m, more than double that previously available, to support the plans Evans Easyspace has in place for growth over the next five years. This growth will be achieved through new build, refurbishment and acquisition of existing sites and with more than 50 business centres open or under construction across the UK, Evans Easyspace is aiming to achieve a £500m portfolio by 2012. Easyspace is 75 per cent owned by the Evans Family Trust and 25 per cent is held by the Kodak Pension Plan. Michael Evans, the Monaco-based chairman of Leeds-based Evans Property Group, established the company. Bradley Cooper, finance director of Evans Easyspace, said, ‘The Evans Easyspace winning concept of easy-in, easy-out terms has been proven across Scotland, the North and Midlands, demonstrating the continued demand for flexible accommodation tailor-made to suit small and growing businesses.’ Further, he commented, ‘Evans Easyspace has a clear programme in place for development over the next five years, with wide scope for nationwide expansion including the South and Ireland, which reflects our confidence in the Evans Easyspace brand.’


2.3 Policy to support enterprise

2.3.1 Context

In the light of the gap between the importance of entrepreneurial firms and the challenges to their ability to realise their potential, various policy initiatives have been introduced. The objectives of enterprise policy may relate to growth in employment, wealth creation, improved innovation and technology diffusion and/or competitiveness as well as reducing social exclusion and regional inequality (Storey, 1994; DTI, 2004) (see the example of A big help for small businesses: Borough businesses benefit from grant scheme in Entrepreneurship in action 2.4). Debate surrounds the pros and cons (Mole et al., 2008) associated with publicly supported intervention to alleviate market failures faced by some entrepreneurs and firms. Most governments in OECD countries provide advisory services to enable entrepreneurs to circumvent attitudinal, resource, operational and strategic barriers. For example, support for enterprise in the United Kingdom has evolved through marked phases (Bennett, 2008). Business Link Operator franchises have encouraged Regional Development Authorities (RDAs) in England and Wales to provide consultancy support. Decentralised local business support (Bennett and Robson, 2003) has been provided by local enterprise companies (LECs) in Scotland. Local support agencies are encouraged to increase market penetration (i.e., contact more entrepreneurs and smaller firms) and to report high customer (i.e., entrepreneur) satisfaction (DTI, 2004) with the impartial diagnostic advice provided to local people and local businesses (Chancellor of the Exchequer, 2004). The
British government has realised the need for a balanced policy agenda (DTI, 2004), and is encouraging business formation by novice entrepreneurs with no prior business ownership experience, as well as supporting some existing entrepreneurs and the growth of some ‘types’ of existing firms. Although local enterprise agencies are seeking firms with employment and wealth generation potential (Mole et al., 2008), support is potentially available to all types of entrepreneurs and firms, irrespective of their growth ambitions. Government also recognises the need to provide targeted assistance for ‘special groups’ of entrepreneurs, such as women and people from ethnic minorities (DTI, 2004).

Intervention to address barriers (and market failures) to new and small firm growth

To encourage new firm formation and business development, government may provide ‘hard’ (i.e., financial assistance and premises) (see Chapters 6 and 12) and/or ‘soft’ assistance (i.e., education and training) to enable entrepreneurs and firms to address barriers (or ‘market failures’) (see the example of Scotland’s Birth Rate Strategy to encourage new firm creation in Entrepreneurship in action 2.5). Intervention is associated with costs and the benefits of the intervention should not solely accrue to the recipients (i.e., supported entrepreneurs and firms). There is no guarantee that intervention will address a ‘market failure’ and generate positive externalisers (i.e., the benefits of the intervention should outweigh the
Entrepreneurship in action 2.5
Scotland’s Birth Rate Strategy (SBRS): Entrepreneurship policy delivery

Description of the approach
In 1993, Scotland Enterprise (SEn) – the government’s economic development agency for lowland Scotland – launched the Scottish Business Birthrate Strategy (SBRS). It set an ambitious target to close the gap in the business birth rate between Scotland and the rest of the United Kingdom by the year 2000.

Six priorities of the SBRS
- **Unlocking the potential**: persuading more people in Scotland to set up businesses – including building enterprise into the education system, at both school and university levels.
- **Improving the environment**: making Scotland a more encouraging place for entrepreneurs by improving formal and informal support networks.
- **Improving access to finance**: helping potential entrepreneurs gain access to appropriate funding to develop their businesses – including venture capital, business angel capital, and bank finance.
- **Widening the entrepreneurial base**: unlocking the untapped potential among women, the under-35s and non-home owners – all under-represented among Scotland’s entrepreneurs.
- **Increasing start-ups in key sectors**: generating more new firm start-ups in key industries, such as manufacturing, high-technology and business services.
- **Increase the number of fast-growing new starts**: increase the number of new firm start-ups that achieve substantial growth, across all sectors.

Implementation of the strategy
SEn and their partners implemented the SBRS through a variety of initiatives. These included: Personal Enterprise Shows to encourage more people to consider starting businesses; new materials to support enterprise education in schools; the Prince’s Scottish Youth Business Trust; the Higher Education Entrepreneurship Programme; new business network groups; and easier access to improved advisory services and finance. SEn expenditure on the strategy was in the order of £20 million per year.

Policy re-focus after an evaluation of the SBRS
The SBRS had the following goal:

The objective is for Scotland to at least equal the UK average of the annual number of new businesses created per head of population by the end of the 1990s. This currently implies that Scotland would achieve a 50% increase in the number of new businesses started every year by the end of this decade. This would involve the creation of an additional 25,000 businesses by the year 2000.

The SBRS failed to achieve this over-optimistic target. After a major review of the strategy, the SEn adopted a more focused approach to entrepreneurship in February 2002. The new approach had the following three main priorities:

- **Encourage innovative high-growth new starts-ups**: increase the number and value of high-growth start-ups, including start-ups in technology-based sectors; this involved the establishment of a new, specialist unit to support ‘high growth’ start-ups.
- **Encourage more people to start businesses**: by providing quality ‘volume’ business support services, mainly through the Business Gateway (including specific support and targets for more start-ups by women, the young and individuals from socially excluded groups).
- **Increase the contribution of education to the development of entrepreneurship**: develop enterprise among young people, school and university students, and socially excluded groups. The establishment of a High Growth Start-Up Unit (HGU) was at the core of the focus on those start-ups with the greatest potential. It focused on technology-based starts with potential to reach a £5m valuation after three years. It offered intense, high-value support, with a focus on intellectual property (IP), fundraising, leadership, routes to market. It was closely linked to external networks.

Over recent years, Scottish Enterprise has developed a suite of investment programmes (and an investment readiness programme) in conjunction with...
2.3 Policy to support enterprise

2.3.3 Scepticism surrounding policy towards new and small firms

There is scepticism surrounding the value of ‘external assistance’ to new and small firms (Bridge et al., 2003). Flynn (1993) has warned that schemes supporting new firm formation may encourage negative selection (i.e., non-survival attributes being transferred to the next generation of firms), and the survival of competitively weak organisations. Subsidies may bring about a major bias in the process of market selection that hampers post-entry scale adjustment of new firms. Holtz-Eakin (2000) has questioned whether smaller firms need special policy help. He asserts that public policies should be devoted to developing an environment favourable to innovation, employment and growth in the economy as a whole, rather than support to particular types of smaller firms.

2.3.4 Need to monitor intervention and issues with blanket support

Nevertheless, governments are seeking to directly and indirectly support an enterprise culture (OECD, 1998). Numerous agencies on the ground are seeking to assist the formation and development of different types of smaller firms. British government policy, for example, has moved from encouraging new firm formation and self-employment, toward supporting growing firms, and more recently to a more balanced policy agenda (DTI, 2004). An intervention needs to be monitored with regard to the following issues (Storey, 1994, 2006):

- **effectiveness** (i.e., extent to which an intervention achieved its aim);
- **efficiency** (i.e., the amount of direct output that the inputs achieved);
- **additionality** (i.e., the net benefit that accrued due to the intervention, whether intended or not, which would not otherwise have accrued);
- **deadweight** (i.e., ‘what would have happened anyway without the measure’ because some people would have started their own businesses even if the intervention had not been available).

costs of intervention and the recipients of the intervention should not solely benefit). Intervention may lead to the problem of ‘government failure’ (i.e., government funding supports entrepreneurs and firms that do not require assistance and whose behaviour is not positively affected by the assistance) (Johnson, 2007). Rather, intervention should address areas of ‘market failure’ where public initiatives contribute to additionality by encouraging actions that would not otherwise have been undertaken (i.e., input additionality), contributing to better results than would otherwise have been achieved (i.e., output additionality), or changing behaviour in a desired direction (i.e., behavioural additionality) (OECD, 2006; Clarysse et al., 2009). The array of macro and micro-level of types of intervention are discussed elsewhere (Storey, 1994; Bridge et al., 2003; DTI, 2004; Johnson, 2007).
● displacement (i.e., how much of the gain in one area is offset by losses elsewhere – a supported firm (i.e., job gain) may take the market share of a firm that has not been supported (i.e., job loss);

● multiplier effects (i.e., additional benefits from the indirect side-effects of intervention).

'Blanket support' allocated to anyone, irrespective of need, ability or previous propensity to use external publicly supported support can be questioned. To maximise returns on public policy investments, attempts have been made to 'target' external support to 'winning firms', that is, businesses with significant wealth creation potential (Storey, 1994; Westhead, 1995). This has been linked, for example, to a focus on policies targeted at stimulating sectors with the capacity to be world leaders to fulfil their potential, and ensuring that emerging technologies become future growth sectors (Mustar and Wright, 2009). Surprisingly, the characteristics and behaviour of 'winning entrepreneurs' have been relatively neglected (Westhead et al., 2005a) (see Chapter 5).

2.3.5 The entrepreneur as the unit of academic and policy analysis

External support is primarily provided at the level of the individual entrepreneur during the firm start-up process. After the firm initiation hurdles have been addressed and the firm has commenced trading, external support for enterprise becomes more focused on the needs of different types of firms (i.e., high-technology, family, exporting firms, etc.) (see Chapters 6, 7 and 13). There may be a need to focus upon the entrepreneur, rather than the firm alone, throughout all stages of the entrepreneurial process. Certain types of entrepreneur may require specific (and customised) types of assistance (see Chapters 5 and 6). Analysis of the heterogeneity of entrepreneurs may contribute toward the development of policies tailored to different types of entrepreneur, rather than the provision of broad 'blanket' policies to all types of entrepreneur, irrespective of need or ability (Westhead et al., 2005a).

In considering the entrepreneur as a unit of policy analysis, it is necessary to appreciate that entrepreneurs are not a homogeneous entity with regard to their human capital profiles, motivations, resources, behaviour and performance. An increase in the number (stock) of businesses in an economy may not necessarily be a reliable indicator of the development of entrepreneurship (Westhead and Wright, 1999). This is because different types of entrepreneur own both new and established businesses. Practitioners monitoring the growth in the supply of new firms need to be aware that habitual (i.e., serial and portfolio) entrepreneurs with business ownership experience own a sizeable proportion of new firms. Studies that judge the scale of entrepreneurship in terms of the number of new firms, but ignore the scale of serial and portfolio entrepreneur activity may overestimate the gross number of entrepreneurs, and underestimate the contribution made by particular 'types' of entrepreneur (Westhead and Wright, 1998a) (see Chapter 5).

2.4 Looking forward

This chapter has highlighted the economic and non-economic contributions associated with encouraging new firm formation and business development. Barriers to business formation and development were summarised, and a case for practitioner intervention to address barriers (i.e., market failures) to new private firm formation and business
development were summarised. The need to focus on the entrepreneur and the firm as units of analysis in academic and policy studies was raised. In Chapter 3, we discuss ‘what entrepreneurs do’ with regard to the entrepreneurial process. With reference to economic approaches we discuss entrepreneurial inputs, processes and events. The following five themes are highlighted with regard to the views of leading economists: imagination and creativity: new ideas, products and businesses (Theme 1), new combinations, radical innovation, new industries and economic development (Theme 2); opportunity identification, evaluation and pursuit: demand, supply and arbitrage (Theme 3); functions and judgements of entrepreneurs (Theme 4); and entrepreneurial business: knowledge management, incremental innovation, and resource assemblage and leverage to exploit an opportunity (Theme 5).

**Discussion questions**

1. The promotion of entrepreneurship is seen as a means of combating unemployment and poverty (Storey, 1994). Critically evaluate the contributions of new and growing firms.
2. Why should policy-makers and practitioners intervene to support enterprise?
3. Should policy-makers and practitioners solely focus on increasing the supply of entrepreneurs and new firms?
4. What challenges would practitioners be likely to face in implementing policy support toward entrepreneurs rather than firms?
5. Should practitioners provide support to under-represented (and/or special) groups?
6. Should practitioners provide ‘blanket support’ to all entrepreneurs and firms?
7. Should practitioners ‘target’ support to ‘winners’?

**Recommended further reading**


