

Jukka Vesalainen

Dimensions of entrepreneurship

Social, economic, local and individual aspects of entrepreneurial behavior

| | |
|---|-----------|
| 1. WHO IS THE ENTREPRENEUR?..... | 3 |
| 1.1. Dimensions of entrepreneurship..... | 3 |
| 1.2. Variations of entrepreneurial behavior | 10 |
| 2. ENTREPRENEURIAL ACTIVITIES AND ECONOMIC GROWTH..... | 19 |
| 2.1. Entrepreneurial activities and their relation to resources | 19 |
| 2.2. Entrepreneurship within different contexts | 26 |
| 2.3. Summary and discussion | 30 |
| 3. NEW FIRM FORMATION AND THE DYNAMICS OF THE SMALL FIRM SECTOR . | 31 |
| 3.1. New firm establishments | 32 |
| 3.2. The growth of companies as a representation of entrepreneurship..... | 33 |
| 3.3. The adaptation of companies to environmental changes | 35 |
| 4. ENTREPRENEURSHIP AND THE LOCAL ENVIRONMENT | 38 |
| 4.1. Understanding entrepreneurship's regional differences..... | 38 |
| 4.2. Technology centres as means of promoting entrepreneurship..... | 42 |
| 4.3. Summary: The local environment and promotion of entrepreneurship | 44 |
| 5. PERSONALITY AS A DETERMINANT OF ENTREPRENEURSHIP..... | 46 |
| 5.1. The trait approach to entrepreneurship | 46 |
| 5.2. Integrative approach..... | 47 |
| 5.3. Entrepreneurial identity..... | 49 |
| 5.4. Motivation structure and entrepreneurship..... | 53 |

1. WHO IS THE ENTREPRENEUR?

In the following text the aim is to answer to the question: who is the entrepreneur? We could ask also *what* is the entrepreneur? This may sound rather strange, since usually, a person is not referred to with the term 'what'. However, the use of this term can be explained with the fact that in its broadest sense, entrepreneurship can be understood as an activity. Entrepreneurial activity can be performed by different parties, varying from an individual person to a large organization. While the narrow interpretation of entrepreneurship views it as a profession, a wider definition suggests that entrepreneurship is activity, which has an important social and economic significance. That is to say, entrepreneurial activity always means *being* an actual entrepreneur, regardless of whether the entrepreneur is an individual person, a group of people, a company, or even a public organization.

Even though the broadest definition of entrepreneurship makes it possible to ask *what* (is the entrepreneur), here entrepreneurship is considered mostly as an individual or group activity. The next chapter will define entrepreneurial activity through three main dimensions of entrepreneurship. After that entrepreneurship is analyzed using these dimensions to understand different variations of entrepreneurial behavior.

1.1. Dimensions of entrepreneurship

Entrepreneurship literature brings forth three central dimensions of entrepreneurship. These are A) economic dimension, B) management dimension, and C) innovative dimension. Within the framework formulated by these dimensions, the functional concept of entrepreneurship can thus be defined, and its representations can be analyzed.

Literature on entrepreneurship derives from the beginning of nineteenth century, when, for example, Jean Baptiste Say wrote about entrepreneurship in the following way: "In order to be successful, an entrepreneur must have evaluation ability, perseverance and knowledge of the world and business activities." Hence, the entrepreneurial researchers at that time were mainly economists.

An interesting detail concerning entrepreneurship is that an entrepreneur was seen as one of the factors of production, among work force, country and capital. Every production factor had its own

task, and performing this task meant compensation. For the work force this compensation equated salary, for capital interest, and for entrepreneur, profit.

This economical invariance is surely valid still today, although in economic theory, entrepreneurship has at times been faded into the background, as it has been referred to as “an invisible hand that controls economy”. Similarly, when organizations grew, the individual entrepreneurship was merged with bureaucratic and hierarchical organizations, where the person was perceived as “a part of the machinery” – rather than an independent entrepreneur, capable of thinking autonomously and making creative decisions.

Innovativeness becomes the central criteria for entrepreneurship

During the 1930s, the concept of entrepreneurship went through a reformation. This was when Josef Schumpeter defined the creation of innovations as the central content of entrepreneurship. The task of an entrepreneur was to utilize inventions and opportunities by putting new products on the market, revising production processes, opening new raw material sources, as well as new markets, and reorganizing the business branches. Schumpeter’s central thesis was that an entrepreneur should cause *creative destruction* with his/her activity, which would enable the emergence of new innovative companies, substituting the old ones. In this way, the renewal and development of economy and business would be ensured. Schumpeter’s definition included also the notion that an entrepreneur is not necessarily a person, but also an institute, whose activities create this kind of *creative destruction* can be defined as an entrepreneur.

Entrepreneur as a user of market information

Another significant definition of entrepreneurship’s role is based on the perception of the so called Austrian school of thought about an entrepreneur’s role within economy. According to this perception, an entrepreneur is the one who perceives opportunities and seizes them. An example of this kind of viewpoint is reflected in the title of Kirzner’s book from 1979: “*Perception, opportunity and profit*”. The underlying idea is that an entrepreneur has abilities to interpret market information, skills to perceive opportunities, courage to seize those opportunities, and thus, skills to gain profit by utilizing the market information.

In this context, visionary abilities and intuitiveness are combined with entrepreneurship. The ability to see and think in a future-oriented way and picture something which does not yet exist is a central attribute connected to entrepreneurship. There are two essential elements in visionary abilities; having the ability to predict (or “see) the future through so called weak signals; and having intention in order to make one’s activities support the vision. The visionary abilities related to entrepreneurship are not only smart words about the future world, but concrete actions and risk taking, so that the intention (for example a business idea) connected to the vision could be realized.

In the core of the entrepreneurship’s *economic dimension*, lies the traditional roles of capitalist, owner and investor. Essential features connected to this role are power to make decisions concerning the capital, and taking responsibility of those decisions; this means taking risks. It is important to realize that in economic risk taking the invested capital is not always one’s own, but external capital. Hence, the role of a traditional capitalist is ill-suited for the small and also larger companies functioning with external capital. The common nominator is, however, risk taking; usually an entrepreneur is responsible also of the risks concerning external capital.

In the *management dimension*, entrepreneurial activity is realized within the task of combining factors of production, and organizing activities. It is of central importance that an entrepreneur acting within this dimension combines and organizes resources, which s/he possesses or has acquired through business environment, into economically useful form. These resources can be of many different types. The traditional division of essential production factors into land, capital and work force may be inadequate in today’s standards. Today, knowledge is the central source of strength for entrepreneurship, and by combining, developing and organizing knowledge, additional value can be created, which can be utilized financially. The ‘organizer –role’ or ‘resource combining –role’ of entrepreneurship has changed remarkably during the years. We can no longer speak, in a production oriented way, about combining production factors. Rather, we should say that the entrepreneur combines, develops and organizes competences so that these activities create products and services, which satisfy the customers’ needs.

Another change within the entrepreneur’s role as an organizer of resources would be the fact that a modern entrepreneur organizes networks, while a traditional entrepreneur organizes activities only within his/her own unit. When viewing this from the entrepreneur’s viewpoint, it can be stated, that the value formation of one’s company is not dependent solely on what the company owns, but also on the quality of the network into which the company belongs. For example, the potential value of a

company is higher, if the entrepreneur is able to establish the company as a part of the rapidly growing IT-cluster network, than if the otherwise similar company would be a part of some other network, which is not equally expansive.

Acquiring resources, and organizing those into economically exploitable form, is thus a part of entrepreneurial activity. These resources can be of many different types, and they can be divided, for example, in the following way:

1. Material resources

- capital
- machines, devices, premises
- inventions, products
- production, etc., processes

2. Immaterial resources

- knowledge, competences
- patents, rights, trade marks
- networks, etc. relationships

It is important that an efficient system for transforming the resources (transformation process) is created within the entrepreneur's task of combining factors of production. The visible part of this transformation process is usually the company with its organization and production processes. Within this transformation process, the capital, various competencies, and physical resources are organized into a system, which aims to produce highly competitive services and products. By selling these performances, the company receives money, which thus, as capital, incorporates back into the company's production system. It is questionable whether capital is always the basic resource, as also competences and innovations can form the basic starting point. The essential aspect about the entrepreneurship's management role is that as a result of the entrepreneurial activities, a system is created, which produces competitive business activities by combining different resources.

Entrepreneurship can be seen, in addition as a task of combining resources, as a task of allocating resources. In this aspect, it is essential to consider whether the allocation of resources is long-term or short-term. In other words, are the resource investments expected to create profit rapidly, or in the long run. Traditionally, entrepreneurial activity is associated with risk taking, especially when setting up new companies or business activities. This is demonstrated by the fact that, for example,

the productivity expectancies of resource investments are uncertain, and realized only in the indefinite future, during a variable time span. In the case of a functioning company, there can be distinguished three different levels of resource investments. In figure 2, this process has been outlined. It suggests that the activities of a company include investing resources and circulating the gained profits created by the investments, as was presented also in table 1. However, within this approach, the investments have been divided into three investment horizons. The first and the shortest (operative investment horizon) describes the kind of resource allocation, which rapidly produces profit for the company. In this case, the investment horizon is short. What we are concerned with here, are the basic activities of any profit creating company. The activities may include, among other things: purchasing raw material, paying wages and other compensations for production factors, which in their turn, create chargeable performances (products or services). Performances create profits, which circulate back into the company quite rapidly. The length or duration of this investment horizon is, depending on the company, from a few days to a few months.

Another, somewhat lengthier investment horizon (competitive) describes the kind of resource investments, which aim to develop business activities and make them more competitive in the current situation. For example, when a company hires a new marketing manager, this investment turns into profit through increased sales only after several months. The business development activities, whether they are investments into production, personnel development or even reorganizing the company's processes, mean investing resources, which turn into profit only in the future. Consequently, the investment horizon of this type of resource allocation is longer than the operative resource allocation. Depending on the case, the resource circulation can last from a few months to even a year.

The third resource investment horizon, which is the longest, as well as the most prone to risks, is realized through so called entrepreneurial decisions. This means setting up a whole new business activity. The period of investing resources is time-consuming as it takes time before the new business activity is able to create positive cash flow for the company. Typical entrepreneurial resource investing comprises of a product development process, which advances through several technical phases into the product's prototype. Furthermore, it includes constructing or organizing a production process and investing a considerable amount of capital to the marketing of the product. Characteristic for this investment is, in addition to its long investment horizon, uncertainty about profits.

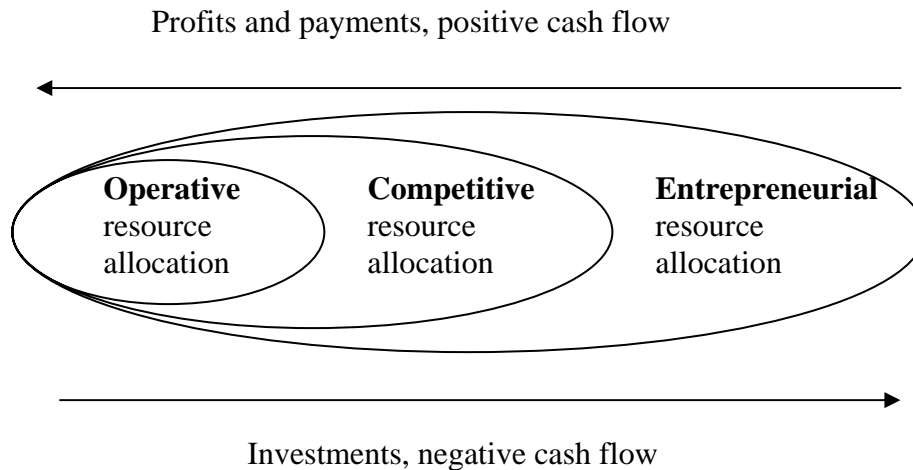


Figure 1. Different time horizons of resource allocations

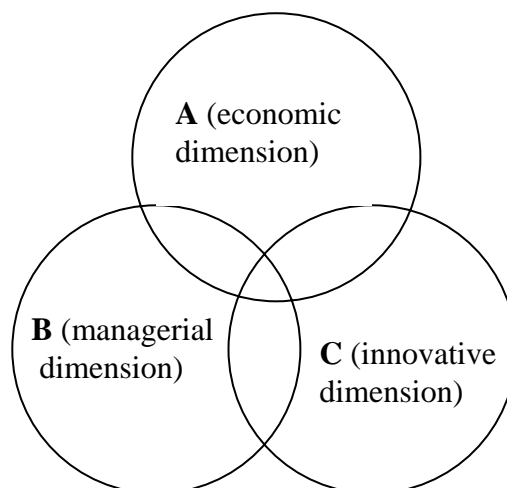
By examining the investment horizons, it can be noticed that the entrepreneurial activities can be very different when allocating resources within business activities. For example, a company which circulates resources only in the operative circulation does not quite represent entrepreneurial behavior. The more the business activities include resource investing, which is carried out entrepreneurially and by applying competitive strategies, the more the business activities resemble entrepreneurial behavior. In literature, a division is often made between companies which act conservatively or entrepreneurially.

The innovative dimension of entrepreneurship is based on innovativeness and visionary abilities. From this point of view, innovativeness, creativeness and the ability to cope with uncertainty and change, are values which are included in entrepreneurial activities. Important aspects here are taking the initiative, having a positive attitude towards change and the ability and will to search for new solutions for problems or existing modes of action. Also intuition and visionary abilities form an important part of the innovative dimension of entrepreneurship. Innovative and visionary abilities in connection with entrepreneurship, base on personal intuitive capabilities to create understanding of the future, “seeing farther than others”. Naturally, visions and intuition concerning future are not absolutely certain facts even for those possessing these abilities, and therefore, they always bring with them uncertainty and, thus, the need to process it. Visionary abilities and intuition are largely personal attributes, which, however, can belong to individuals, as well as various kinds of groups, such as a company’s management team.

Table 1. Tasks, outcomes and challenges of entrepreneurial behavior

| Entrepreneurial role | Economic | Managerial | Innovative |
|-----------------------------|--|--|---|
| Task | Investing productively external or own capital; profit orientation; risk taking | Combining and organizing resources (factors of production) in order to create a business and form an organization or network | Creating new and innovative business activities by using market information |
| Outcomes | Interest on the invested capital; profit for the risk taking (both in relation to the performance of the business) | Internally and externally efficient firm; well functioning network | Monopoly profit, growth of the firm; emergence of new branches |
| Challenges | Finding productive opportunities to invest in; risk management | Liability of smallness (coping with small resources; gaining legitimacy in the market) | Liability of newness (coping with novel idea; gaining legitimacy in the market) |

The innovative role of entrepreneurship creates new business activities, new companies, growth in the existing companies and renewal of the old ones. This role is concerned with creativity, growth and renewal. From this aspect, setting up a new company is often perceived as innovative behavior.

**Figure 2.** The overlapping dimensions of entrepreneurship

As figure 2 shows, the dimension of entrepreneurship are overlapping indicating that various combinations can be found. In the following each combination will be discussed in order to understand the whole picture of entrepreneurship.

1.2. Variations of entrepreneurial behavior

Who is an entrepreneur again? So far we have aspired to divide entrepreneurship into different dimensions, without considering who an entrepreneur is. Actually, there is no unambiguous answer to this question, although literature is full of various definitions. In order to understand entrepreneurship, it is of course important to consider also this question. In the following, we will define an 'entrepreneur' on the basis of the above discussed dimensions of entrepreneurial activity. The result is not one, but several different descriptions of the role of an entrepreneur, depending on what kind of emphasis are given to different dimensions within each entrepreneurial activity.

The contextual frames of this examination are outlined in the presented figure 2 and table 1. If the role of the actor is realized only in a single dimension, the activity remains quite narrow from the point of view of entrepreneurial theory. These kinds of actors are often not interpreted as entrepreneurs in the proper sense of the word.

According to the view taken in this discussion, a person who performs only the role of a capital investor (A), and who does not in any way take part in the company's activities, is not an entrepreneur. This kind of role is realized in its most typical sense, for example, in stock exchange investing, where the actor makes decisions concerning the investment of either his/her own or external capital. In this role, the central objective is thus to invest the capital productively, while the challenges are risk management and finding productive investments.

Another role which links up with entrepreneurship, but which does not fulfill all the requirements concerning entrepreneurship, is the role of a typical employed manager (B). Especially management connected with leadership and traditional leadership, which is supervisory and coordinating, fits well for this kind of operations model. The importance of a company's wage management is highlighted especially in organizing activities and exploiting different resources effectively. However, this role, as such, cannot be interpreted as representing entrepreneurship.

The third operations model which remains in the outside of this discussion, is connected to the situation in which the actor has solely an innovative function (C). A typical example of this kind of activity would be an inventor, for whom creating technical solutions is the core of all activities. It can also be suggested that those with different visionary abilities, but without power or courage to make decisions, act in a similar way. But neither they, nor inventors, can be considered real entrepreneurs, again due to the narrowness of the entrepreneurial role.

The following types of entrepreneurial behavior are combinations of two roles. There are three combinations, which reflect quite different appearances of entrepreneurial role.

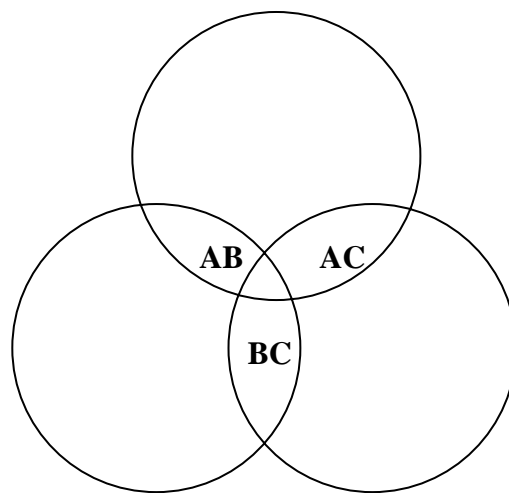


Figure 3. Three combinations of entrepreneurial roles

According to the present contextual frames, all different combinations of entrepreneurial activity dimensions can be understood as actual entrepreneurial roles. When the economic and managerial roles merge (AB) we have an activity which includes power to make decisions both in investing the capital, as well as in leading the activities. Central to this role is also taking personal risks. A part of the Finnish owner-manager business activities is exactly this kind of entrepreneurship. If the entrepreneurship remains at the AB-level without rising into the ABC-level, this is because the innovative role of entrepreneurship is missing or is very limited. This way, entrepreneurship is largely limited only in the owner-management axis. The AB-type of entrepreneurship appears also in other than traditional owner-manager or family companies. This kind of entrepreneurial activity is increased by shareholder entrepreneurship, where the acting management of the firm becomes also the owner.

In the AC -role of entrepreneurship the economic and innovative roles are combined. It is much more difficult to find practical examples for this role combination, than for the preceding one. However, actors within this kind of activity, are, for example the so called 'business angels', who invest on new branches. They take part in setting up new companies, by investing their own capital. Simultaneously, they are visionaries who possess knowledge of expanding branches and of profitable, extremely innovative business opportunities. The representation of entrepreneurial AC -role is clearly very limited due to the fact that innovativeness and visionary abilities merged with economic risk taking is a difficult combination. It is easy enough to be a 'visionary' as long as one does not need to take risks in order to realize those visions. Although there may be plenty of visionaries who can be interpreted as acting within the C-role, most of them will never reach the AC -role.

In the BC -role of entrepreneurial innovativeness and management merge. It is quite easy to find practical examples for this role. A visionary company management is a typical representative of this entrepreneurial role. Also the kind of innovator, who, for example, as the leader of product development department, initiates a process which leads to a creation of a new product, is an individual who in a typical way reflects the entrepreneurial BC -role. Furthermore, for example a profit center leader without a considerable partnership in the company can be considered an individual who acts within this kind of entrepreneurial role.

BC -entrepreneurship also means change management. Within change management, developing the company's organization, production etc. processes and network relationships, requires activities which are strongly future-oriented, vision about the future operations model, and strength to overcome the barriers set up by change resistance. This kind of entrepreneurship can appear in the activities of management, which has the responsibility to develop activities, or in the activities of a consultant, who manages the change. Consequently, the task of a process consultant is exactly to create an atmosphere which supports and energizes the change. This way, also a process consultant who acts accordingly, can be seen as acting within the entrepreneur's BC -role.

The operation of companies is changing towards a more self-instructional activity. This means that the steering and supervising role of leadership gives way to personnel's own independent initiative. This enables the entrepreneur's BC -role, which is responsible for innovativeness and leadership, to reach throughout the whole personnel. In an entrepreneurial organization, the whole personnel thus has the possibility to realize innovativeness to a certain, agreed extent. When defined this way,

anyone with the right kind of attitudinal and professional basis, and with liberties granted by the management organization to realize their creativeness, can act as an *internal entrepreneur*.

In all the BC –type of entrepreneurial activity models, the activity comes near to a complete entrepreneurship when the share of payment by results is increased. The most recent adaptation of this kind of activity would be *the option programs* of company management and key persons.

The extreme representation of entrepreneurship

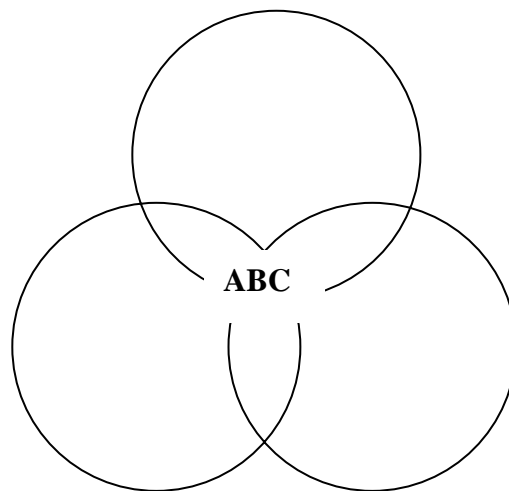


Figure4. The core of entrepreneurship

According to the framework, the most complete and extreme representation of entrepreneurship is the ABC entrepreneurship role. In it the various roles are combined; the capital investor's economic and personal risk taker role, the managerial role of business activities' organizer and allocating resources, the innovative role of an innovator, a visionary, and user of market information. Without exception, all these cases include creating new business activities. In order to realize the innovation, risky investment decisions must be made in all of them. Furthermore, the innovation process and commercializing process must be managed in such a way, that the outcome will involve a commercially exploitable and competitive product or service.

In ABC –role the entrepreneur is facing both the liability of smallness and liability of newness. One of his/her main tasks is to gain legitimacy for the business and organization (or network).

Establishing a new business should always be seen as a significant act of entrepreneurship. In Finland 10.000- 20.000 new companies are established yearly. The truth is, however, that only a fraction of the new companies are truly innovative and growth oriented companies. Businesses with novelty value and growth potential are rather rare as solo performances. However, every now and then these kinds of companies with high expansion and novelty value do appear, and they are organized by strong, entrepreneurially spirited persons.

Partnership-entrepreneurship is increasing

Entrepreneur teams have great potential. Nowadays it is more likely than ever, that in the background of a growing and successful company there is an entrepreneur team. For example, in the background of Vacon Oyj we can find an expertise team with a wide competence area. They know how to utilize these competences in development work and share risks together. This entrepreneur team with exceptionally many members was able to utilize the value of their business activity in only a few years, as the company went public. This is an excellent example of how well a team entrepreneurship works.

Entrepreneurship emerges when existing companies develop new business activities

Often it is considerably more easier for an existing company to set up new business activities, as the necessary resources already exist at least to some extent. This is the case especially, when the new business is closely related to the existing business. One way to combine competences and share risks between companies is to develop new business activities together. This is becoming more and more common. There is also a possibility to rely on networks when creating new business activities. In this case, the entrepreneur's role is not to organize the activities of the new company, but to coordinate the network so that with its help, new business activities can be created.

Research as a starting point for the creation of new business activities

The basic research carried out in universities, institutions of higher education and different research institutes produces innovative material for new business activities. As a result of co-operation between researchers, sponsors and managers, this basic research often produces significant new business activity concepts. Examples of these kinds of spin offs can be found, for example, in the

following address: www.venturecup.org. Usually the winners of this business idea competition are good examples of innovations which have originated from basic research and technology.

One business activity, many entrepreneurs

In practice, it is often hard to single out a person, in whom entrepreneurship is culminated. The following example of creating a new business activity gives insights into entrepreneurship as a result of the actions of many different parties. A company specialized in air-conditioning equipments and the related installments, began in the end of 1990s subcontracting as a cooperation partner with a new and rapidly growing company, which had just recently been set up. The explosive growth of the customer's activity led to externalizing the company's subcontracting department into a sheet metal machine workshop. A lot was invested in the new machine workshop and the result was a modern subcontracting company with a top quality production technology. The ownership of this company was divided between the original subcontracting company, an investment company, the main client and the company management. It was thus a new firm, in which new business activity with growth potential could be created by redirecting the existing resources in accordance with the customer's expansion. In the light of this example, we can consider who would be an 'entrepreneur' in this case, and in what kind of role. The birthplace of the new business activity was in the original subcontracting company. The managing director of the company, Mr. U.L. saw an opportunity for new business activity as an electronics industry subcontractor of sheet metal parts. During the course of time, things progressed so that it was soon time for a considerable investment in order to build a new factory. At this point the 'entrepreneur team' expanded so that setting up the new activity there was B.sc. (Econ) M.P. from an investment company, engineer P.K. as the partner and managing director of the upcoming company and B. sc. (Econ) J.K. as a representative for the main client and one of the partners. In this case, the team acted within the entrepreneur's ABC -role. However, the entrepreneurial role of each individual varied quite considerably, depending on his position and background. The role of U.L. was perhaps the most emphasized as the complete entrepreneurial ABC -role. He was the original visionary, initiator and main sponsor of the project. P.K.'s role was nearer to the BC -role of entrepreneurship, as an organizer of activities and a member of the strategic business management. The fact that also P.K. was a partner, takes his role closer to ABC -role, but as the investment was relatively small from the company's point of view, this does not grant him the same role as for the previous one. M.P. as the representative of the investment company acted within this business project mainly in the AC -role. For him the central concerns were investing in the project, ownership received

through that investment, and also the vision of the profitability of this type of activity. His role also included practical organization tasks, but they were clearly more limited than those of the two above mentioned persons. J.K. as the representative of the main client and important sponsor acted in the project mainly in the AC -role, as a representative of his own background company. It can be thus concluded that in the above discussed business project, entrepreneurship is an entity, formed by the activities of several different individuals.

Rather confusing about the definition of entrepreneurship can be the fact that an entrepreneur can be an individual, a group of people or an active company. The following discussion may clarify this matter. The smaller the business activity is, the more likely it is that entrepreneurship with all its above mentioned roles is culminated in one person. This way, the standard type of individual entrepreneurship would be an inventor-innovator, who, with a personal risk develops new products and builds a profitable business around those, finally selling the business in order to start the creative process again. This type of entrepreneurship is an example of ABC entrepreneurship, which is strongly individually bound. In the other extreme of entrepreneurship, the individually bound entrepreneurship is often about acquiring livelihood through small business, in which case the different entrepreneurial roles appear in quite vague forms. For example, in the activities of a hairdresser entrepreneur, none of the entrepreneurial activity dimensions is emphasized. There is only a slight possibility of a risk, due to the activity's predictability. Management largely means leading oneself and working with a few employees. Resource investments are mainly operative and at most tactical, for example; providing training for oneself and the employees. The core of this kind of entrepreneurship is personal professional ability, which can be anything from different craftsmanship to combinations of knowledge. Typical representatives of this kind of entrepreneurship are individuals providing personal services, as well as services for companies (doctors, lawyers, beauticians, machine contractors, masseurs and many other individuals, working within different practitioner roles).

Correspondingly, when entrepreneurship is viewed as a phenomenon within companies, a distinction can be made between two kinds of companies; those who act conservatively and those who act entrepreneurially. A conservative company does not aim to expand or develop. Its resource investments are strongly aiming at operative circulation (operative investment horizon). In contrast, a company which acts entrepreneurially invests a considerable part of its resources into development activities, which often aspire to create new business activities, or improve remarkably the competitiveness of the company. The central goal is growth.

Entrepreneurship within small and large companies

The meaning of individually bound entrepreneurship alters as the company grows. When the company is small enough, entrepreneurship and all its dimensions can be very visible in one person. As the company grows, the assets, leading capacity or innovative skills of only one person are not sufficient to independently manage all the tasks required from entrepreneurship. Consequently, as the company grows, entrepreneurship is divided into separate sectors within the organization

1.3 Summary and discussion

We have described entrepreneurial activities as activity-roles within three different dimensions. The economical role, leadership role and innovative role form a trinity, in which entrepreneurship acquires many different forms. In the core of entrepreneurship, we thus find an operations model, which combines the actor's economic risk taking, partaking in the organization of new business activities, and the project's innovativeness, visionary quality and/or expansiveness. The different variations of entrepreneurship can be categorized in three main groups (AB, AC and BC - entrepreneurship). Within each of these, entrepreneurship is not realized in full, but only mainly as the combination of two roles. That is to say, activity which only fills one role is not classified as actual entrepreneurship. This means that, for example, risk investing, leadership, or inventing, remain outside the entrepreneurial activities.

In many practical situations it is difficult to finally state in whom (person) or what (organization) the entrepreneurship culminates. Various parties in different roles affect the process of creating an innovation. The intellectual or judicial owner of the idea may change several times during the search of an effective concept.

The meaning of individually bound entrepreneurship changes as the company grows. In a small company, entrepreneurship and all its different dimensions can be very much concentrated and emphasized in one person. As the company grows, the assets, leading capacity or innovative skills of only one person are not sufficient to independently manage all the tasks required from entrepreneurship. Consequently, as the company grows, entrepreneurship is divided into separate sectors within the organization and even within the networks.

Within the present frame of reference I have clarified the conceptual basis of entrepreneurship, and basing on that, analyzed some of the behavioral models in business life. The question which I have aspired to answer is: Who is the entrepreneur? I will leave the conclusive interpretation to you. However, it is probably clear that the conceptual content of the phenomenon, derived from entrepreneurial theory, does not only support the vocational interpretation of entrepreneurship; as being an owner-manager or being a practitioner, but it reaches deeper than that. Entrepreneurship is entrepreneurial activity, which social function is to develop new competences, direct resources and competences into profitable areas and ensure that the usage of resources guarantees the best possible result for each participant.

I have impersonated the entrepreneur in this discussion by asking ‘what is an entrepreneur’. But as entrepreneurship is behavior and behavior is always human activity, there must, hence, be a person – an entrepreneurial person – in the core of all entrepreneurship.

Questions for reflection:

1. What is or what could be your own entrepreneurial role, when defined through the above discussed roles?
2. When you think of what happens in the society and economy around you, what kind of practical examples can you think of, considering the different entrepreneurial roles?
3. Analyze the management of your own local community as an entrepreneur

Literature related to the text:

Cuevas, J. (1994). Towards a Taxonomy of Entrepreneurial Theories. *International Small Business Journal*, 12:4.

Kirzner, I.M. (1979). *Perception, opportunity and profit*. University of Chicago Press, Chicago.

Schumpeter, J.A. (1934). *The Theory of Economic Development*. Harvard University Press, Cambridge, Mass.

2. ENTREPRENEURIAL ACTIVITIES AND ECONOMIC GROWTH

In the following, we will examine the societal effects of entrepreneurship. The position of entrepreneurship as an active subject, an actor, becomes visible through its societal or economic role. The historically most important tasks of entrepreneurship are discussed. These tasks, discussed by different scholars, will be formulated into a model of entrepreneurial activities. This model enables the understanding of entrepreneurship's importance for the economy as a creator and user of resources. All the activities have something to do with resources. Resources are created, re-allocated, used effectively and circulated through different entrepreneurial activities.

2.1. Entrepreneurial activities and their relation to resources

The mainstream of economics cannot be claimed to uphold an individual entrepreneur as the engine of economy. There are, however, some exceptions from this mainstream, which actually form a very logical entity. The English economists, Binks and Vale, have constructed a synthesis of the different economical outlooks on entrepreneurship. According to this synthesis, entrepreneurship emerges as a phenomenon which has four different types of activities. This means that all the representations of entrepreneurship have their own, distinctive relationship to resources. Furthermore, these entrepreneurial phenomena form a certain taxonomy, which leads to the emergence of the so called entrepreneurial waves. These four activities of entrepreneurship are: 1) the catalyst activity, 2) re-allocative activity, 3) resource refining activities, and 4) so called end-game entrepreneurship (omega-entrepreneurship), which recycles resources unused or left over by others.

The catalytic entrepreneurial activity

According to Schumpeterian definition of entrepreneurship, only creating completely new combinations can be considered entrepreneurship. Novelty value can be connected to 1) product (service), 2) raw material, 3) market, finding new demands, 4) processes and operations models or 5) wide industrial reorganizations. What is 'completely new' is, of course, relative, but real innovations can usually be distinguished. Innovative entrepreneurship, which has the most prominent social significance, is producing those kinds of innovations which create completely new branches.

As the millennium changed, the unforeseen enthusiasm of investors towards companies specialized in information technology and services surprised the world's stock exchange experts. These companies are usually unprofitable as they go public, but after public quotation, their market value rises to inconceivable amounts. For example, the market value of Finnish TJ-Group Ltd rose during its first year in the stock exchange (1999) 1500%!! Simultaneously, the market value of the company's shares rose to 860 million euros, while the net sale remained only at 22,8 euros. For comparison's sake, the market value of Rautaruukki Ltd (a Finnish steel factory) was nearly similar, 840 million euros, but the net sale was 2,4 billion euros. What is going on here?

When this is perceived from the entrepreneurship's viewpoint, it means that a whole new branch is being created inside the IT business. It is concerned with different service applications which rely on internet technology. The investors experience the value of this business as so promising that the market value of companies which invest to this business are light years away from their actual value based on production or substance. It can be concluded that the invention of internet is a global innovation, which is an excellent modern example of schumpeterian, high-quality innovation, which produces creative destruction. The special aspect about internet invention is that it is not owned by anyone, but it is rather a part of common infrastructure. Thus, it could be compared with the development of road network, which at the time enabled the birth of the automobile industry. Now, the development of the so called information highway's infrastructure has been explosively rapid, which characterizes the nature of this period well. The essential thing is, that this development has opened doors for a massive amount of new businesses, and the modern expertise companies with their own innovations, are eager to be included.

When discussing the aspects of business life in Finland, the role of Nokia as the engine of economy cannot be overlooked. From the point of view of innovative entrepreneurship, the considerable investment of Nokia into wireless communication and its various applications, is both internationally, as well as of course nationally significant. As an entrepreneur, Nokia represents entrepreneurial organization, whose ownership is worldwide, and whose management is multistage, diversified into different business areas and functions, and whose innovativeness sprouts from the company's own basic and applied research. It can be stated that in Nokia, entrepreneurship has been institutionalized, but it does not seem to reduce the value of the realized entrepreneurial activity.

In this context, it is important that innovative entrepreneurship forms new resource combinations and even new resources. Theoretically, the aspect which urges an entrepreneur towards innovative entrepreneurship is the possibility of a monopoly gain. Innovative entrepreneurship actuates an entrepreneurship wave, in which resource allocating entrepreneurship, entrepreneurship which makes the use of resources more effective and finally, and so called en-game entrepreneurship, completes the effects of innovative entrepreneurship on economy and society.

The resource allocating entrepreneurship activity

Market information is the central basis for entrepreneurship which allocates resources. In this entrepreneurial activity, the decisive characteristic is to utilize market information. In its most simple sense, this means that the entrepreneur knows that s/he can buy certain product A from the market in the prize X, and knows that s/he can sell the same product in the market B with the prize X+Y, in which Y stands for the entrepreneur's profit. In principle, entrepreneurial activity is always this kind of exploiting of market information, although the situation is often much more complicated.

The central thing about entrepreneurial activities, which are defined this way, is above all interpretation of market information and combining different market information, which open new business opportunities. It is not important whose resources the entrepreneur allocates and redirects. What is important is that the society's resources are always directed in such a way that their financial benefit is ideal.

For example, when examining afterwards Nokia's (more precisely, its board and administration) decision in 1980's to invest, instead of rubber boots, tires and paper, into information technology and electronics, it can be noticed that this has been the most remarkable entrepreneurial decisions to redirect resources in Finnish economic history. Those who act entrepreneurially within this level, often act in the BC-role (cf. Entrepreneurial dimensions) as members of the company's strategic management. These kinds of decisions, which redirect the resources of a company's strategic management, are naturally made all the time. A glance through economic journals provides always signs of this kind of entrepreneurial activity as these two headlines from Finnish papers show.

Headline:

“Sonera considers applying the third generation’s mobile phone admission in Great Britain”
(TS, 16.2.2000)

Background:

A decision has not yet been reached in Sonera of whether to participate in the applying of third generation mobile phone admission. Sonera is a company which has internationalized and renewed during 1990’s; it has not taken long for the company to develop from a government institution (TELE) into the present day company which is business oriented and aggressive.

Headline:

“The king of floor heating aims to participate in e-business” (HS, 17.2.2000)

Background:

Uponor (formerly Askko) which began its business activities from a carpenter’s workshop is, according to the experts, moving over to e-business. A closer examination reveals that Uponor is going to invest on plastic pipes, needed when installing fiber optic cables.

At the change of the millennium, resources are mainly redirected particularly towards information technology and other branches connected to it. Another branch with a notable productivity potential is bio – and genetic engineering, into which resources are invested considerably.

Some venture capital companies, which act near to the entrepreneurial AC -role, have specialized particularly in investments on certain future branches. The large-scale companies’ “New Ventures” organizations are one of the most notable present day examples of where the work is done when redirecting resources towards future’s industrial branches.

Many of the subcontracting companies within metal industry are redirecting their resources in order to become *contract manufacturers* for electronics industry. This change often requires development of two kinds. Firstly, procuring the technology needed when providing services for electronics industry and training related to that technology, and secondly, adopting the new, customer oriented operations model.

From the point of view of resource re-allocating entrepreneurship, entrepreneurial activity (entrepreneurship within the roles of AC or ABC) always directs resources, according to the market information, into branches where those resources can produce the highest possible profit. Entrepreneur who redirects resources also strives for monopoly gain, even though the enjoyment of the oversized profit in question might be more short-term than in the case of real innovations, especially if they are protected.

In some cases, resource allocating entrepreneurship precedes innovative entrepreneurship. Most typical this is in those cases, where some large company decides, as its strategic choice, to invest into a certain branch. This way, investing on basic research, applied research and product development may produce innovative solutions, which can even introduce dramatic changes. In different instances, the resource allocating entrepreneurship is realized in the footsteps of great innovations or other considerable changes within the business environment.

The resource refining activity

Entrepreneurship which makes the use of resources more effective is concerned with considering how the existing resources can be used most effectively, so that their potential is realized in full. According to this view, all different resources can be used more effectively; machines, premises, capital, human competences, and business connections. Entrepreneurship which makes the use of resources more effective creates its productivity and competitive advantage through its effectiveness.

Practically, this representation of entrepreneurship is very close to operative management. It is not so much concerned with the strategic business management's task to allocate resources into productive destinations, but rather, to ensure the efficiency of resource usage inside the company. Innovative modes of action, such as JIT, teamwork, FMS-cells, core processes, process oriented organization and TQM are up-to-date examples of managerial (entrepreneurial) activities and change management, which make the usage of resources more effective. Here again, we are not concerned with routine management, but change management with variable activity demands.

Reorganization was carried out in the beginning of 1990's in Jorvas Partners Oy. In this reorganization, the production was organized into customer oriented teams, which each had direct customer accountability and contact with the customer. This was an operations model, which

emphasizes the importance of internal entrepreneurship throughout the organization. In a similar manner, Kone Oy organized the manufacturing of Novel-elevator cage; a total responsibility was granted for a team, formed by individuals with multiple competences. The results were perceptible through quality improvement, quickened turnaround time and cost savings. This kind of entrepreneurship realizes in individual level usually as a BC -role. Within this role, the change agent, who may be company internal or external, or a group of actors, notices the benefits of the new operations model and aims to direct the organization towards this operations model. In all cases, this kind of activity involves breaking the change resistance. Typical features of this kind of change agent are innovativeness, visionary abilities, a conception of the superiority of the new operations model and the ability to reassure others that it is the right way to go.

The “omega-activity”

The so called end-game entrepreneurship (omega-activity) is economy’s own recycling system. The central realization requirement for this kind of entrepreneurship is the declining of the so called *opportunity cost*. This means that when, for example, as a result of bankruptcy, liquidation, enforced sale etc. completely satisfactory capital assets are being sold at a very low price, this price reduction and the profitableness of the capital assets, creates for some entrepreneur an opportunity for business activity. Within this activity, cost leadership is the central competitive advantage.

Basing on the above discussed definitions, it can be stated that in all cases, entrepreneurship has to do with resource usage. Resources do not, after all, direct themselves and form business activities. In this sense, the classical definition of an entrepreneur, who combines different production factors, is right to the point. For example, we Finnish people are often proud of the fact that we are highly educated. From entrepreneurship’s viewpoint, this should not, however, be taken as an absolute value. Entrepreneurship is thus needed, so that also this resource (educated work force) could be used as accurately (cf. innovative entrepreneurship and entrepreneurship which redirects resources) and effectively (cf. entrepreneurship which makes the use of resources more effective) as possible.

The *entrepreneurship wave* progresses in the footsteps of an innovative entrepreneur in many ways. Often, the creation and breakthrough of a new kind of business activity is in question. The matter can also be viewed from the viewpoint of the life cycle of the branch. Mr. Rabbe Grönblom founded his first pizzeria in Vaasa in the end of 1970’s. Although a pizzeria cannot be considered as a world-class novelty, it was, however, at the time, a real innovation as a restaurant concept in

Finland. It can thus be stated that Grönblom acted here as an innovative entrepreneur. When the other entrepreneurs and would-be entrepreneurs within restaurant business noticed that Grönblom is setting up his third restaurant in the same town, some of them realized the profitability of this new concept. The redirecting of activities was started, and restaurant-keepers all over Finland began to change their enterprises into pizzerias. This is an example of exploiting the market information.

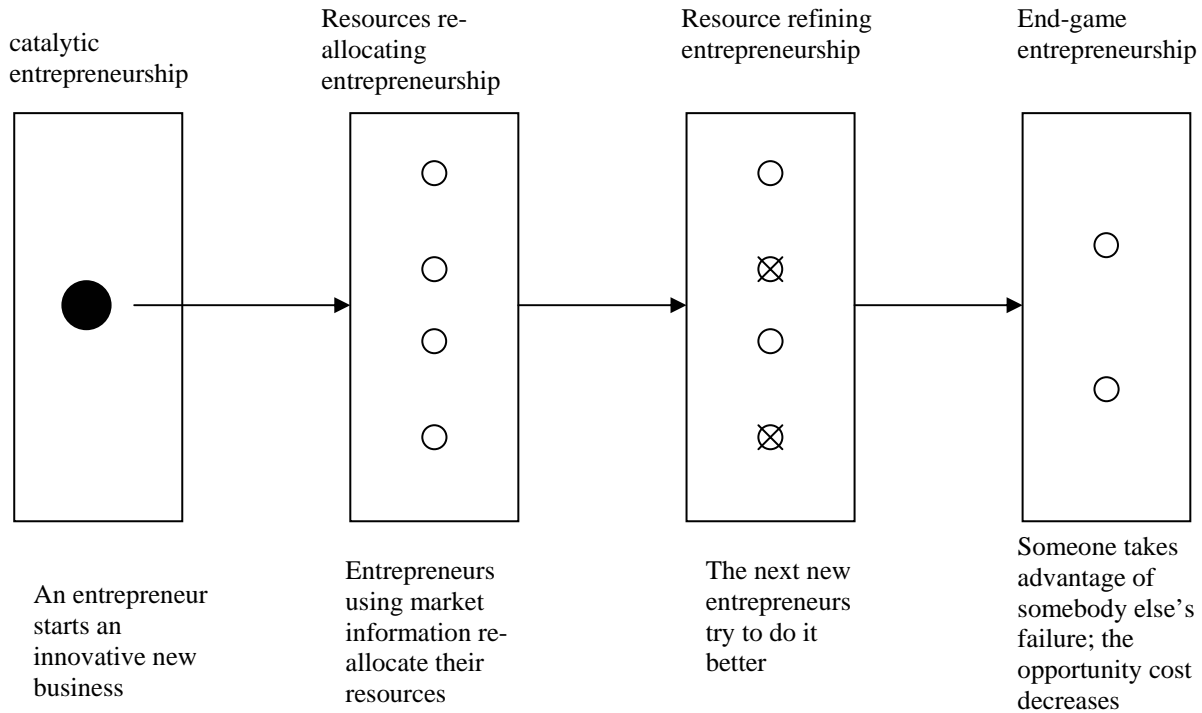


Figure 5. Entrepreneurial activities and the 'entrepreneurial wave'

The branch continued to expand energetically, and more and more businesses, basing on the same concept, were set up. The novelty value did not necessarily exist any more and the newcomers often set up their businesses in the midst of a tense competition. Their argumentations of the survival of their company were often the following kind: "Our activity is of a higher quality", "our service is better", "our prices are lower" or "we do more ourselves". Here we have an entrepreneurship, which aims to use the existing resources more effectively. For some, these argumentations held true, for some not, in which case, the company was soon faced with difficulties and the activity ended either in bankruptcy or voluntary shutdown. In both cases, viable capital assets must be liquidated at a low price. This can be an opportunity for some entrepreneur, since capital assets acquired at a low price can be a cost advantage and thus, an opportunity in the market. Here we have a so called 'end game' entrepreneurship.

2.2. Entrepreneurship within different contexts

Entrepreneurship becomes very different within different contexts. The various activities of entrepreneurship emerge in different representations, depending on whether we are talking about creating new business activities within the context of 1) new firm formation 2) existing small or medium sized companies or 3) a large-scale enterprise.

The context of a large-scale enterprise often provides abundantly both capital, as well as many-sided, yet specialized competences, even when realizing innovation processes basing on basic research. This way, the resource foundation for innovativeness is ideal.

In the context of small and medium sized companies, there is clearly a lot less resources and competences to be used in realizing the innovation process. This group is, however, extremely heterogenic, and it includes companies, which are, relatively speaking, both economically strong, as well as of high technological quality.

The context of new firm formation is the most modest one, both in its economical aspect, as well as in the level and width of its competence areas. Setting up companies here refers to private persons who set up new business activities. The narrowness of the resource-base is particularly due to the fact that when the new company is being set up, there are no business activities financing this new company, but the capital needed for development work must be, in a way, taken from nothing.

In the table below, entrepreneurship is divided into 12 types, according to whether the entrepreneurial activity takes place within the context of a large-scale enterprise, small or medium sized company, or new firm formation.

Table 2. Different context and types of entrepreneurial activity

| | New firm context | Small firm context | Large company context |
|--|------------------|--------------------|-----------------------|
| Innovative entrepreneurship | C | B | A |
| Resource re-allocating entrepreneurship | F | E | D |
| Resource use developing entrepreneurship | I | H | G |
| End-game entrepreneurship | M | L | K |

Innovative entrepreneurship within the context of a large-scale enterprise (A) can have many forms. Especially innovativeness, which is in connection with technological basic research, is at home within the context of a large-scale enterprise. Naturally, that is not to say that all large-scale enterprises would be innovative. The central thing is, however, that the slow and sustained basic research can only be carried out, if the resource-foundation is enough strong and stable. The biggest problem within this kind of innovativeness is perhaps that the research and production development processes must be able to produce enough large-scale innovations in relation to the investments. The actual requirement of profitability is here partly erased, due to the connection that basic research forms to universities and research institutions, and the sharing of the project between different parties. This way, basic research and sharing of the project thus enhance this kind of innovativeness. In its most typical sense, this kind of entrepreneurship is represented in pharmaceutical industry. Within this industry, the research and product development phases, together with various testing, are so lengthy that a company with a poor resource-foundation has no chances to survive within this branch.

Innovative entrepreneurship is realized differently within **the context of small and medium sized companies (B)**, than in the large-scale company context. Innovativeness within this context is, at its most typical sense, rather applied innovativeness than basic innovativeness. This means, that innovativeness has to do with those kinds of new combinations, in which all the elements are actually old and it is only the way of combining them, which is new. For example, Safety-Ball pressure air valve is a combination of a traditional rapid connector and a ball valve. The construction ensures that the air pressure pipe cannot be disconnected from the instrument when it is full of pressure, but the pressure is released before the pipe comes off. This is an example of an entrepreneur's idea to combine two technical elements, which are traditionally kept apart. The result was an innovation, which enhances occupational safety.

Innovative entrepreneurship within the context of **setting up a new company (C)**, produces similar innovations, based on ideas and realizations, as did the context of small and medium sized companies. For example, Hope Smoke smoke-bag is without a doubt a completely new product innovation, although, it does not contain elements with technological novelty value. An example of a typical, practically-minded innovation would be T-Drill drilling machine, developed by an local engineer. When drilling, this machine makes a so called 'collar' in the pipe, in order to ensure an easy and long-lasting welded seam. A typical feature among these kinds of innovations, commercialized through new companies, is a long commercializing period. At the moment, T-Drill

Oy operates among the small and medium sized companies, and is largely internationalized, but it has been fifteen years since the actual innovation was made, and after inventor entrepreneurship, there have been two different owners. A young female economist set up a new company, which manufactures and markets different kinds of overalls for dogs. Here, innovativeness mainly equals market innovation. The entrepreneur realized that good-quality overalls designed for dogs are not available in the market, while there seems to be a demand for those.

Re-allocating resources is typical for the big companies (D). Especially portfolio-thinking aims at allocating the investments there, where the productivity expectancies are the highest. In the large-scale enterprise context, this often means that companies aim to get promising companies within expansive business areas in their portfolio. This way, innovativeness is, in a sense, purchased as a readymade foundation for the company, into which the company is ready to invest. In other words, the large company redirects its resources in the portfolio from 'cash-cow' to 'stars' or 'question marks' (cf. BCG matrix).

Resource re-allocation can be seen as a deliberate strategy for small businesses (E). This kind of strategy bases strongly on market information, which means that, for example, a company which uses so called *follower-strategy* or so called *entrepreneurial judo* (Drucker, 19xx) as its strategy, does not even aim to be a pioneer, but a follower, who rapidly exploits market information. For example, a Finnish farming machinery manufacturer explains frankly that he has never even aspired to find unique innovations, but aims to keep the products up-to-date and competitive by actively observing the surroundings, mainly the introducing of new products. The novelty value remains within the level of company or area, as, for example, products which have been received favorably in other parts of the world, will be manufactured for the domestic market, or will substitute the importation.

In the traditional sense, **resources re-allocation is not possible in the new firm formation context (F).** The perspective is, however, wider, so that we also see the redirecting of personal resources as this kind of entrepreneurship. Although, when a new company is established, significant redirecting of resources rarely occurs, as the founders of the new companies usually remain in the same branch where they have previously worked. However, an entrepreneur, who, for example, among the first ones begins to import and distribute certain environmentally friendly washing powder through the concept of network marketing, actualizes, in a quite innovative way, the redirecting of his own resources.

Effectiveness increasing entrepreneurship is very common in the large firm context (G).

Various new operations models used by business management serve as methods when the use of resources is made more effective. The so called lean-organization concept and the related re-engineering, building of process oriented organization and team working, are a part of innovativeness, which is mainly connected to renewing the operations models. These kinds of operations model –innovations usually spread very quickly through benchmarking, among others. For example, the activities of the gigantic ABB consortium are relatively speaking very innovative, also organizationally, as there are many continual development projects ongoing. One of the methods to ensure continual, incremental development, used especially by large companies, is to organize projects which encourage everyone to be initiative. These aim to activate the whole personnel to search for improvement for the operations models.

Within the **small and medium sized –sector**, especially in the small end, the **development of organization's operations models in order to take the better advantage out of resources (H)** is naturally not as relevant as it would be in the case of a large company. One way, with certain novelty value, to make the resource usage more effective in the small and medium sized –sector, is mutual, often multilateral cooperation. Thus, the cooperation group, as it purchases and uses certain common resources, can, in the ideal case, take the utilization rate of the resource in question near to a hundred percent. For example, when three small companies decided to purchase together a small CNC-cutter, designed for carpentry industry, this would not have been a wise purchase for any one of them individually, but together, they were able to utilize the capacity of the device to its full extent.

Effectiveness-increasing entrepreneurship is quite common within the context of setting up new companies (I), because there is quite little novelty value within establishing new companies.

And yet, many entrepreneurs aim to somehow differentiate their companies from the existing ones, or at least prove their competitiveness. In practice, the argumentation is often that 'we do it better', 'cheaper', 'our service is better' or 'our quality is superior'. As these newcomers, however, often operate with completely similar, or even more modest resources than the already existing companies, the underlying idea behind these above mentioned competence factors must be, that the companies in question use their resources more effectively than the existing competitors.

End-game entrepreneurship is presumably quite rare within the **context of a large company (K)**. Within the **small and medium (I)** sized companies' context, this kind of entrepreneurship is represented to some extent. For example, when a company, which manufactured farming machinery, went bankrupt after the mid 1980's, the bankrupt's estate sold many substantial production lines of farming machinery to small or medium sized companies. At the realization situation the value of these kinds of resources, which are converted into business activities, is considerably higher for the actual buyer, than the price which the buyer would otherwise have to pay. This way the opportunity cost reduces and the cost advantage creates a competitive advantage.

End-game entrepreneurship is realized perhaps most commonly when **setting up new companies (J)**. This kind of entrepreneurship is in question when a company is faced with a bankruptcy, and dismantled into new enterprises. A manufacturer of wooden houses, who was very expansive and successful during 1980's, was faced with the problems of economic recession after the turn of the 1990's. The active management of the company purchased the activity and continued the business activities.

2.3. Summary and discussion

We have here examined the representation of entrepreneurship within society as various activities. As can be concluded from the discussion, the representation of entrepreneurship varies considerably and is realized in many different contexts. The intention was to give some insights into this diversity of entrepreneurship, and provide the reader with some conceptions, which help in understanding and analyzing the societal importance of entrepreneurship.

1. What kind of entrepreneurial waves can you locate? Start of from some fairly innovative and significant enough occurrence, and find out what has happened within that branch afterwards.
2. Think of an example for each entrepreneurial activity within different contexts (table); rely on your own experiences and glance through some magazines related to the branch

Literature related to the chapter:

Binks, M & P. Vale (1990). *Entrepreneurship and Economic Change*. McGraw-Hill, London.

Pihkala, T. & J. Vesalainen (1999). *Mahdollisuus, visio ja innovaatio uuden liiketoiminnan taustalla*. Kirjassa Lehtonen (toim.) *Strateginen yrittäjyys*. Kauppakaari, Helsinki.

3. NEW FIRM FORMATION AND THE DYNAMICS OF THE SMALL FIRM SECTOR

The business activities of small and medium sized companies are often associated with entrepreneurship. The reason for this association is that most of these kinds of companies are owner-managed which means that the earlier discussed entrepreneurial AB -role is the type of entrepreneurship which is referred to. When the small and medium sized –sector is examined from macro level viewpoint, three processes emerge, through which the sector of small and medium sized companies either develops or disintegrates and alters its form and size. These three processes are 1) the formation of new companies, 2) growth of existing companies and 3) the adaptation process of existing companies.

The whole Finnish business field is actually formed by small and medium sized companies. According to the latest statistics, about 99% of companies are units which employ less than 50 employees. In Finland, the whole business field includes about 220.000 companies, and this frequency of companies compares well to the European standards. Thus, we cannot claim that Finland would have fewer companies in relation to its population, than what the European countries in average have.

In order to understand the dynamics (development, regression and qualitative and quantitative changes) of the field of small and medium sized companies, we can examine the development dynamics of the field through three separate partial processes. These are 1) the formation of new companies, 2) the expansion process of companies and 3) the adaptation process of companies (figure x).

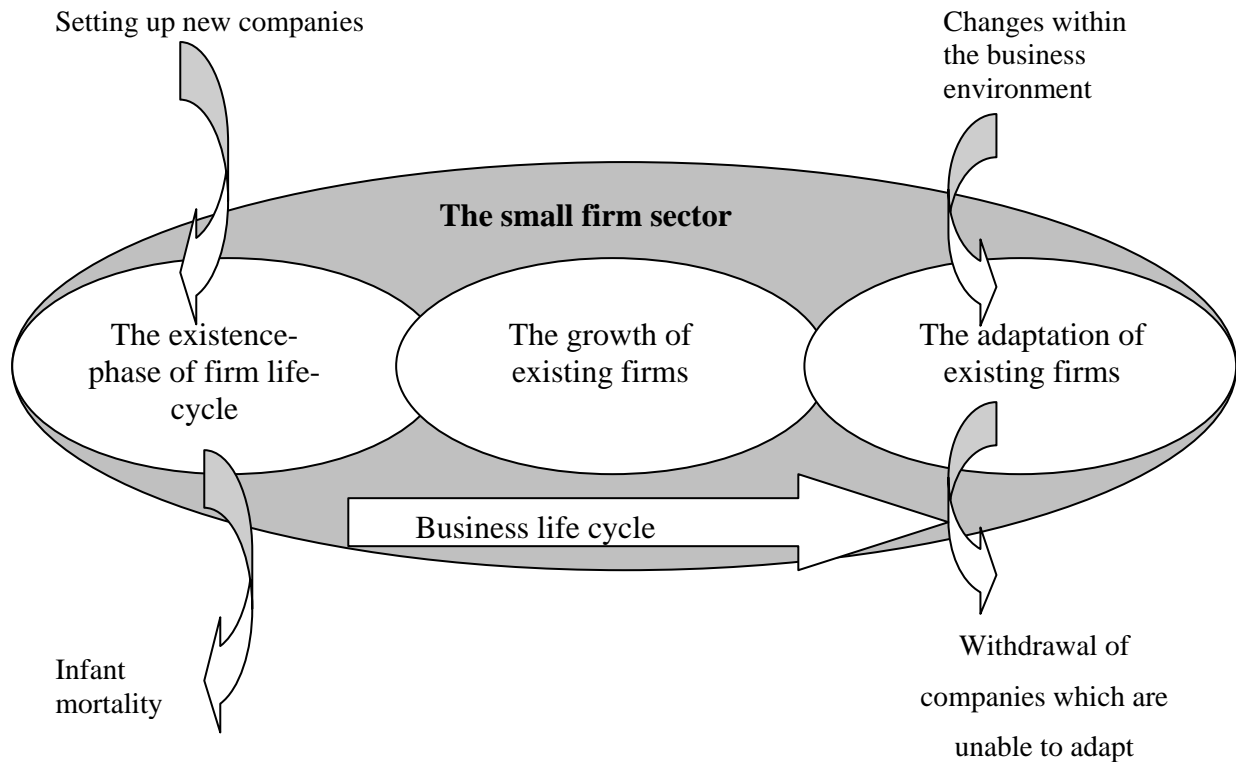


Figure 6. The dynamics of the small firm sector

3.1. New firm establishments

There are two sides in the establishing process of new companies: new companies and infant mortality. The establishing of new companies is everywhere (also in Finland) darkened by the very frequent infant mortality. This means that if a company ends its activities before it has lasted five years, it is categorised into the group of infant mortalities. This shutdown does not, however, always indicate a complete failure, ending, for example, in bankruptcy. It often happens that the professional, who has become an entrepreneur, finds a paid employment and shuts down his/her company, even though it would be relatively profitable. However, the number of these early shutdowns is relatively high. As much as 40-60% of new companies can afterwards be pronounced as dying a premature death.

There are 15.000 - 25.000 new companies established in Finland yearly. Thus the share of new firm from the total population varies around 10 %. (the share seems to vary between 4 and 12 % in different countries and in different times), and according to the previous number of infant mortality, only about half of them will remain within the enterprise base permanently, acquiring at least an

adequate profitability level. The renewing effect of new firm formation on business field is not as significant in other aspects either, as one could expect. This is because the novelty value of business ideas realized through establishing new companies is not as high, as, for example, the Schumpeterian conception of entrepreneurship as “creative destruction” would suggest. As discussed earlier, the creative destruction means that the new business activity has a high novelty value, and with this novelty value, it can drive the old outdated companies out of the market. The mainstream of new companies rather resembles the *entrepreneurship developing the use of resources*, which was discussed earlier. This became obvious when we inquired fresh entrepreneurs about their competitive advantage in relation to the existing companies. Typical answers revealed that the company has the same activities as the already existing companies have, but they have a higher quality, they do things better, cheaper, have a better service, their location is more convenient etc. Naturally, some of these matters are real, in which case they form a competitive advantage. Those aspects which are not real, and which thus do not provide a competitive advantage, presumably lead to premature shutting down.

3.2. The growth of companies as a representation of entrepreneurship

The growth process of companies is another central phenomenon which describes the dynamics of the small and medium sized –sector. When reading some of the growth models of companies, the reader might get the impression that growth is an automatic occurrence which concerns all or at least several companies. In practise, however, considerable growth is rather rare. The forceful expansion of a company might, in addition, pose the threat of failure for the company, if the growth cannot be controlled.

Growth companies have a great significance for economy and employment. Storey (1987) presents, basing on wide English data that after 10 years of their establishment, 4% of the survived companies employ half of the employees of all survived companies. Thus, from employment’s point of view, certain expanding companies are in the key position. Storey’s conception is simplifying and there is no consensus of its accuracy. In the case of employment expansion, it is not known whether the expansion of the companies has been ‘organic’ or whether it has happened through acquisitions. In the case of acquisitions, the employment has not necessarily increased, but transferred from one company to another.

In any case, other research results as well speak in favour of the considerable employment ability of expanding companies. According to Koskinen's (1989) research, only 10-15% of established companies proved to be so called expanding companies. Gallagher and Miller (1991) studied in 1987 the employment abilities of 20000 new companies in Northeast-England and 2600 new companies in Scotland (established 1980-82). 18% of the 20000 new companies in Northeast-England were classified as expanding companies, and they provided 92% of all new employments. In Scotland, the respective numbers were 11% and 68%.

The expansion of a company has been modelled in various ways. The most common model pictures the growth with a lifecycle –model, shaped like the letter s. It describes how, after a weak beginning, a considerable growth occurs, after which the growth becomes steady, followed by an inevitable regression. Often the beginning stage is described as a so called 'valley of death'. The company finds itself in the valley of death when its operation volume has not yet reached the critical point. The critical point means that as the company reaches it, it no longer is unprofitable, but the net sale and its balance have become greater than the expenses.

The preventions for expansion can be roughly divided into two: 1) lack of expansion abilities and 2) lack of expansion willingness. The lack of expansion abilities is often connected to the modesty of resources and business idea, locality, very specialized activity, narrow market segments and other related aspects. The lack of expansion willingness often derives from the entrepreneur's goal setting and entrepreneurial identity. For example, an entrepreneur with an artisan identity considers unchangeable and small, easily controllable business as an absolute value. External preventions for expansion are often associated with various macroeconomic factors, such as money value, availability and counter-cyclical expectancies. Furthermore, recently particularly the employers have emphasized the expenses, limitations and inflexibility of working life, as releasing companies' expansion willingness.

A small one-man company rarely becomes a large-scale enterprise. This occurred, however, in the case of Jorma Lillbacka, where a small subcontracting machine workshop developed into an international company, employing thousands of people, with a net sale of billion. The secret behind this expansion lies in an innovation (a devise which blocks the end of a metallic tube), which stimulated the company's growth. The capital produced by this innovation was invested in the development work and marketing of machines used in sheet metal production. As this innovation also appeared to be a success, the company grew rapidly.

The central questions related to companies' growth are: 1) how to get all the companies with expansion abilities to realize their expansion decisions or 2) how can the respective expansion potential be utilized otherwise?

Questions for reflection:

1. Find some examples of companies which have started from small-scale business and expanded rapidly. Try to find out what kind of background the rapid expansion has within your examples.

3.3. The adaptation of companies to environmental changes

The need to adapt arises when companies face changes in the operational environment. Those companies which cannot adapt to changes will withdraw from the business field, either by perishing away slowly, or by a quick bankruptcy, depending on the extent of the change and the condition of the company. Because changes within the operational environments of companies are common and even continual processes, the companies' ability to renew themselves is a very important quality in order to ensure survival. Adaptability is also one of the criteria for entrepreneurial activity.

Small companies are often considered to be flexible and adaptable precisely because of their smallness. This assumption is, however, rather questionable for three different reasons. First of all, the size of small and medium sized companies can vary from one employee to a hundred, and it is obvious that the companies at the end of these two poles are completely different. Secondly, adaptation requires also resources to develop new operations, and then, the weak resources of small and medium sized companies challenge adaptability. Thirdly, a small company is very much identified by its entrepreneur, which means that the adaptation depends on the kind of, for example, professional adaptability the entrepreneur in question has.

The adaptation of companies to the changes occurring within their operational environment can be examined in three levels: 1) operational adaptation, in which the company either increases or decreases its use of resources depending on the demand, 2) tactical adaptation, in which the company invests on the development of its competitiveness within its current branch, 3) strategic (or entrepreneurial) adaptation, in which the company aspires to find a completely new business

activity (compare to *innovative or redirecting entrepreneurship*) and 4) changing the operations model, in which the company changes very radically its operations, for example from production oriented company into marketing oriented company.

According to a research (Vesalainen, 1995), the operative level adaptation is possible for all healthy companies. Tactical and strategic –level adaptation is more common in so called entrepreneurial (innovative) companies, although activities aiming at strategic –level adaptation are quite rare. Radical changes to the operations model appear to be possible only when the company management changes. In small and medium sized companies this often means change-of-generation or the entrepreneur becomes ‘chairman of the board’ and the tasks of chief executive are given to the responsibility of professional manager.

One of the central differences between entrepreneurship and leadership is that entrepreneurship is creative and innovative behaviour, while leadership is mainly concerned with managing the existing operations. When changes occur within the operational environment of a company, the company must have an operations model for entrepreneurial behaviour, in order to realize the changes required by the operational environment. Unfortunately all small and medium sized companies do not have this kind of renewal ability, connected to entrepreneurship, but are faced with pressures to adapt to environmental changes, and depending on the extent of those changes, they either suffer or die mercilessly.

The Finnish farming machinery industry developed mainly positively after the wars, always until the end of 1980’s. Due to the structural changes within farming, the branch was then approaching a certain state of maturity, or even regression. Characteristic for the behaviour of companies during 1980’s was that many business executives stated that the branch is going downhill and many companies cannot find a space, as the demand decreases and the competition intensifies. Even though this was public information, only a few companies took concrete, anticipatory action. When a radical change occurred within the branch during the end of 1990’s (the domestic demand dropped 70%!!), this occurrence lead to the following changes within the business base, when at the starting point, there were altogether, or partly (they manufactured also other than farming machinery) 113 companies.

1. Immediately as the demand dropped, 10-15 companies, which were already in a bad economical condition, went bankrupt or were shutdown (“the sick ones died”).

2. In the course of a few years, additional 15-20 companies were shutdown. These were not financially suffering at the beginning, but unable to adapt to the change by developing their activities, and thus “became ill of the economical anaemia” afterwards.
3. Most of the companies (about 50-60) succeeded in developing their activities so that they were able to cope with the intensified competitiveness of the branch, by using their resources more effectively (compare with entrepreneurship developing the use of resources).
4. Some (5-10) companies succeeded in developing new business activities, either concerning the products (developing new products which were not farming machinery) or the market (directing the marketing of their farming machinery to export market); this operations model equals the above discussed entrepreneurship which redirects resources.
5. A few (4) companies were able to change their operations model totally, in which case, for example, the machine workshop which manufactured their own product, became an import company.

Parts of the companies, which were unable to adopt (e.g. usable machines, products with marketing value, production lines and sometimes even a whole business activity) return to the business base as new companies. These resources return to the business activities through a recycle-system, resembling the above discussed end-game entrepreneurship.

Trough the above discussed dynamics of small and medium sized companies –sector, for instance the processes, which affect the wellbeing, employment abilities and the overall economical effectiveness of the sector in question, can be defined and comprehended. This way, setting up new companies does not solely lead to, for example, improvement in employment, but activities and efforts should be directed also towards the processes described above.

Questions for reflection:

1. What kinds of changes must companies prepare for nowadays?
2. Can you explain any recent bankrupt? Is there perhaps something to do with the lack of adaptability?

Literature related to the article:

Vesalainen, J. (1995). The small firm as an adaptive organization. Organizational adaptation versus environmental selection within environmental change. Acta Wasaensia, No 42. University of Vaasa.

4. ENTREPRENEURSHIP AND THE LOCAL ENVIRONMENT

The appearance of entrepreneurship in a society is often tried to explain or understand through the circumstances of that particular environment. This so called *environmental school of thought* is macro-economic in its basic character. However, the environmental factors used to explain entrepreneurship are various and not only hard facts about the economic conditions of the environment. Also prevailing culture and general attitudes have been used as factors explaining entrepreneurial activity. The relationship between entrepreneurship and various environmental factors is, however, much more complicated than simple causal models present. Entrepreneurship naturally has an effect on the various factors within culture and economic structure. In fact, entrepreneurship is a part of them both. This way, a strictly causal explanation of entrepreneurship is not in question in this kind of discussion of entrepreneurship, but it is seen as appearing within culture and structure. Everything thus affects everything also in this case.

4.1. Understanding entrepreneurship's regional differences

The five most common contextual factors used as determinants of entrepreneurship can be grouped as social, economic, political, infrastructure development and market factors. Johansson and Bång (1992) have presented an interesting modelling of entrepreneurship's regional variance. In this modelling, they explain the emergence of entrepreneurship through five separate partial models. These are: 1) the necessity model, 2) the market model, 3) the resource model, 4) the milieu model and 5) the career model. The models include both structural and cultural elements of the environment.

In the **necessity model**, the presumption is that people are driven to entrepreneurship by a necessity or discontent they feel towards the current situation. In entrepreneurial literature, this state is commonly known as a so called push-factor, that is, discontent-factor. Theory about social marginality explains entrepreneurship precisely through this logic. Social marginality means that a person belongs to such a social group, which, due to its racial factors, economical factors or, for example, lack or unsuitability of competences, has no other way to make a living or rise socially, than entrepreneurship. This theory has been applied when explaining the fact that entrepreneurial activity is more frequent among, for example, different minorities, than among the mainstream population. The discontent –factor can also appear when a person feels that his/her abilities are not realized in their full potential in the current post, or s/he feels discontent towards the current wage

level, or the possibilities to be creative, or to advance in his/her career. Thus, the necessity model is about discontent of different degrees, which drives the person towards entrepreneurship. In the Finnish or Nordic societies, people are not driven to entrepreneurship as the result of an utmost economical necessity, because the safety nets of society support everyone at the minimum level. This is not the case, for example, in the American society, where society's safety nets are not as comprehensive, and where the necessity model can be realized as the last resort of livelihood. In a recent Finnish research, which examined people's entrepreneurial intentions, the previously mentioned push –factor emerged as one of the explanatory factors for entrepreneurial intentions. For example, in Varkaus, among unemployed persons who only received the basic unemployed allowance, there were 4 times more entrepreneurial intentions, than among those employed or receiving earnings-related allowance.

The explanation which supports the **market model** is that the local market is perceived to be so vigorous that it provides plenty of opportunities for entrepreneurship. This explanation model relies strongly on both consumer and corporate markets. If the population of the area has the kind of age distribution, financial status and lifestyle, that the consumer habits support, for example, the use of purchased services, this provides considerably more opportunities for business activities, than culture and values, which suggest that everything must be done individually. Thus, both basic cultural values, and wealth and incomes are essential. On the other hand, if the company structure of the area is many-sided and abundant, the local corporate market looks quite different than if the area had only one large employer. In Finland, there are plenty of these kinds of regions with only one considerable employer. There are not many opportunities for business-to-business type of activities within this kind of business area.

In the **resource model**, the starting point is that the versatile and abundant resources of the area increase entrepreneurship. In this case, resources can be divided into 1) capital, 2) material resources and 3) immaterial resources. The availability of resources can in its turn be divided into 1) traditional financing (banks and investment companies), 2) risk financing (so called venture-capital –financing), which can appear in many different forms and 3) public financial aid type of financing. Risk financing in Finland is largely concentrated on risk financing companies, which are mainly located in the south of Finland, but operate around the whole country when needed. There are also some local funds available. Another, more unofficial risk financing is realized in the capital investments of private persons. The number of these so called “business angels” is increasing and becoming more official also in Finland. In other parts of the world, for example Denmark, there is

even public information available from these “business angels”. In any case, if the financing market of the area is very good, especially the risk financing, the better ability the area has to produce new business activities. The third capital resource availability has to do with the various public financial subsidies.

Within different regions, the importance of material resources is visible especially when the premises for the business activity are concerned. Communities and cities have for a long time upheld the issue within industrial policy of being favourable towards entrepreneurs, and actively built premises for business activities. The demand for this kind of building seems to be increasing, as companies are less and less willing to invest their own capital to building. It is logical to assume that a better resource basis increases entrepreneurial activities.

During the recent years, the importance of immaterial resources has emerged as a decisively important underlying factor for the expansion of entrepreneurship and business activities. Especially the availability of professional personnel in the area is essentially important. Certain “hot” branches, such as information technology and communication technology in general, suffer from labour shortage, which prevents the expansion of business activities. However, within regional level, also other kinds of professional competences can emerge as significant preventions for entrepreneurship.

Within the **milieu model**, it is perceived that in order to create entrepreneurship and new business activities, an innovative environment, which stimulates and helps entrepreneurs in their creative processes, is needed. The milieu model differs from the resource model in that it is concerned with creating as innovative milieus as possible. An example from this kind of phenomenon is the American Silicon Valley, which is known as the world’s ‘nerve centre’ for computer -, software -, and information technology. It is perceived that such ‘competence aggregations’ as Silicon Valley, produce multiplicative effects within innovation activities. This is because the collective of scientists, researchers, entrepreneurs, sponsors and other business activity professionals, forms an entity, in which the circumstances for creating new business activities are ideal.

In order to encourage entrepreneurship, numerous innovation centres, technology villages and centres, business incubators and centres for new businesses have been established also in Finland. These are perceived to have a positive effect on the creation of entrepreneurship and new businesses within the region. The terminology within this area is quite unsettled. However, a division can be

made between different centres etc.; while the other aspect is concerned with providing premises and the related basic services for the companies, the other concentrates on enhancing and supporting the processes of entrepreneurship. It is considerably easier to provide premises than affect more holistically to the process of creating a new business activity. Although such a dynamic aspect is connected with the term business hatchery, some business hatcheries are, however, unable to provide anything but basic services.

In the **career model** the regional representation of entrepreneurship is viewed through the structures of working life and economy, which either support or hinder the region's entrepreneurial activities. It is perceived that if the region has plenty of entrepreneurial activity, this produces role-models for the youth, and supports their identification as entrepreneurs. Consequently, the level of entrepreneurship, when measured with the amount of new entrepreneurs, would be rather high. Also research on entrepreneurship shows that in the background of most entrepreneurs, there is experience of small businesses. We can thus presume that if a region has lots of small business activities, this kind of environment produces also more new business activities. In a way, this is actually about learning how to be an entrepreneur.

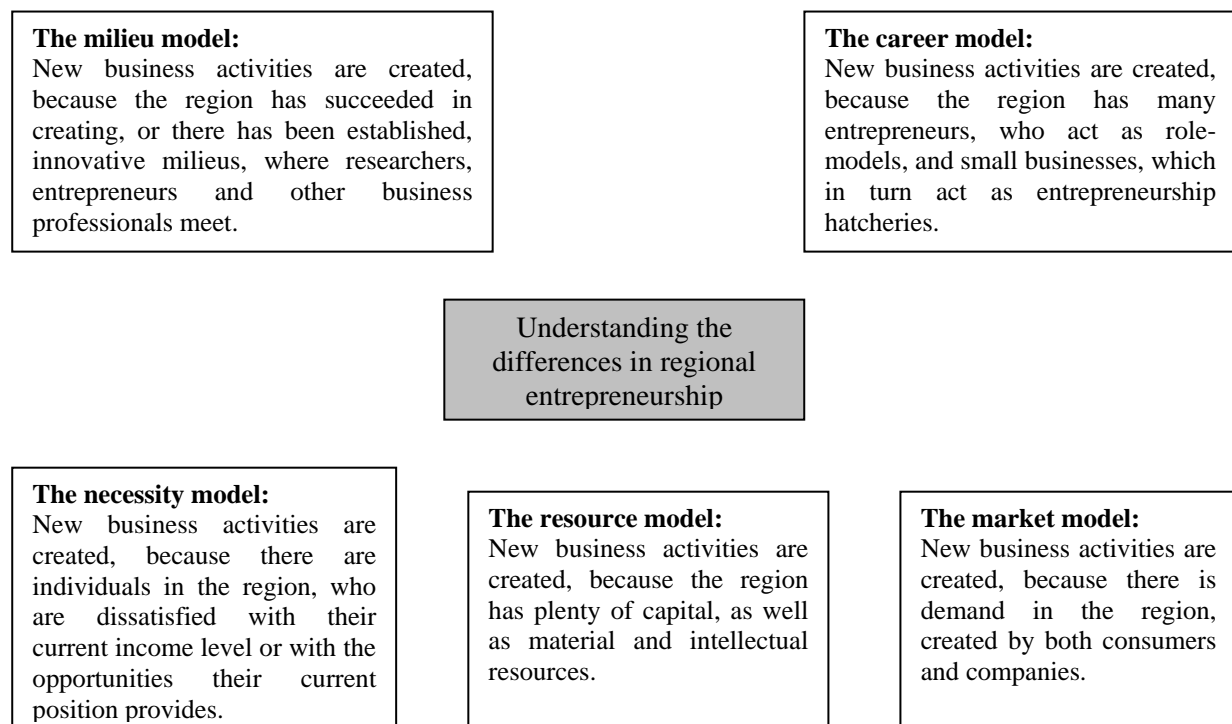


Figure 7. A framework for understanding differences in regional entrepreneurship

This kind of model seems to characterize southern Ostrobothnia, where there are plenty of entrepreneurs and small businesses. It is likely that this kind of environment is more prone to teach and socialize people into entrepreneurship, than the kind of environment, where there are only few role-models and entrepreneurial training possibilities.

4.2. Technology centres as means of promoting entrepreneurship

Business incubation is seen as the modifier of the collective's resources, as it produces important outputs for the collective. As the inputs of the collective, we can see entrepreneurs, capital in its different forms business activity opportunities and other essential 'raw-materials' in creating new business activities. As a return, the collective receives business incubation outputs, which are new rapidly expanding companies, other new companies, entrepreneurially identified individuals (possible future entrepreneurs) and other positive effects on operational environment. One of these positive effects could be the region's entrepreneurship-friendly and development oriented image.

There are many different technology etc. centres in Finland, which resemble the above mentioned centres, aiming at creating new business activities. Many of them include also various incubation activities. The table below presents these organizations briefly. It is worth observing how each of them defines their basic tasks.

In addition to the technology centres, there are numerous regional development organizations in Finland. It is not an overstatement to say that within every community, there is some communal organ (business activity), which duty it is to enhance these kinds of matters. The activities are often realized as project based, in which case enhancement of entrepreneurship is realized through periodic training and development projects. There are abundantly of these kinds of projects. According to a survey (Puhakka, Vesalainen & Pihkala, 1998), during the spring of 1997, there were altogether 249 development projects concerning entrepreneurship ongoing in the former Vaasa region.

Here is a list, which consists of examples of technology centres' strategic goals in Finland.

Innopoli

"The most important task of Innopoli is to act as the business generator of the institutions of higher education and research centres in the metropolitan area. We wish to help our

entrepreneurs to refine their good business ideas into successful products, which will reach also international markets. The core of Innopoli's activities is the business training provided by Spinno –program, and different support services, varying from consultation to capital investments.”

Helsinki Science Park

“The Science Park in Helsinki enhances and develops the business activities basing on the innovations within biosciences and food sciences, and the related branches.”

Joensuu Science Park

“Joensuu Science Park is an organization of regional development, which provides services in business development, technology and premises. Its aim is to enhance the creation of new high-competence working places in the science park and in North-Karelia, by relying on North-Karelian competences.”

Technology centre of Jyväskylä

“The aim of the Technology Centre of Jyväskylä is to develop and strengthen the business activities basing on new knowledge and technology. The centre realizes its objectives by encouraging innovation development, establishing new businesses, and by creating foundations for operations for both new companies, as well as existing companies.”

Technology Centre Teknia

“Teknia provides infrastructure and services, which boost the development of business activities basing on new technology in the Kuopio region. Our services include commercializing innovations, transferring technology, business hatchery activity, bio-production services, and services related to company development and training.”

Technology Centre Kareltek

“The most important task of Technology Centre Kareltek is to enhance the creation of new business activities in south-east Finland. In order to support new companies or companies relocating to Lappeenranta, the technology centre provides an environment which is ahead of its time; premises, basic services and development services, as well as innovative cooperation partners.”

Technology Centre of Tampere, Hermia

“The Technology Centre of Tampere enhances the development of top competence and business activities of new and existing technology organizations in Tampere region. This function is realized through acting as the producer and developer for the development services of business activities basing on top competence and high technology.”

Technology Centre of Turku

“The Technology Centre of Turku is a collective, formed by 200 companies and a research and service unit, operating in BioCity, DataCity, ElectroCity and EuroCity. These employ and train some 4000 people. The technology centre practises research, development and business activities related especially to bioengineering and medical science, material research, electronic engineering, information technology and telecommunication.”

Technology Centre Merinova, Vaasa

“The task of Technology Centre Merinova is to create and develop prerequisites for the creation of competitive business activities, through technology projects realized in cooperation with industry, communities and training and research units.”

Regional operations models which enhance business activities can be classified according to their input on a) the encouraging of innovative processes and b) basic resources when setting up new business activities. The science park model resembles most closely the actual Silicon Valley phenomenon. High-level research and entrepreneurship are combined within this model, in the forms of searching for new business activities (compare with AC –role), risk taking (AB –role) and strategic business management (BC –role). Technology village -concepts are extremely diversified. Some of them resemble science parks, or they include parts which are similar to science parks. Some of them base almost solely on building infrastructure which supports new business activities. New business-centre activities concentrate on providing start-up consultation for the new smaller and more traditional business activities, without any significant investments on infrastructure. Training and development projects are often similar, but periodical and directional. All other operations models can actually be referred to as business hatchery –activities, except the business park –model which, in fact, is a more developed form of industrial park.

4.3. Summary: The local environment and promotion of entrepreneurship

One of the indications of business field’s and entrepreneurship’s dynamics is the creation of new business activities. When examined this way, entrepreneurship differentiates significantly within different areas. In the discussion above, these differences were outlined through five explanatory models. These were 1) necessity model, 2) market model, 3) resource model, 4) milieu model and 5) career model. The figure below summarizes the explanations and viewpoints of these models.

Naturally, none of the models by itself explains the difference of a certain area as compared to another area. Each of the explanations has a different emphasis. This modelling provides, however, an excellent foundation for discussion, which aspires to encourage regional entrepreneurship, or, for example, direct the communal industrial policy. It awakens many questions; what kinds of means are needed and through what kinds of mechanisms entrepreneurship could be produced?

Questions for reflection:

1. What is the current situation of entrepreneurial activeness in your community or region? Explain the current situation by relying on the models presented above.
2. What is your community's contribution in encouraging entrepreneurship; has it succeeded in creating "innovative milieus"?
3. Does unemployment today equal social marginality, and is entrepreneurship in this case, an option worth considering?

Literature related to the article:

Davidsson, P. (1993). Kultur och entreprenörskap. NUTEK, Stockholm.

Laukkanen, M. (1999). Yrittäjyyden ja uuden liiketoiminnan jäljillä – Paikallinen kehittäminen kansainvälistyvässä maailmassa. Kuopion yliopiston selvityksiä E. Yhteiskuntatieteet 8. Yrittäjyyden ja johtamisen laitos.

Johansson, B. & H. Bång (1992). Nyföretagande och regioner – modeller, fakta, stimulantia. Stockholm: Arbetsmarknadsdepartement. 136 s.

5. PERSONALITY AS A DETERMINANT OF ENTREPRENEURSHIP

The relationship between various individual-related factors and entrepreneurship is considered in the following four sections. The base to all of them is the same: elements of individual personality. The first section treats the so called trait approach on entrepreneurship, which strongly highlights the personal characteristics of individuals as explaining entrepreneurial behavior. The second section introduces the interaction approach, which tries to understand entrepreneurial behavior through the interaction between the person and the environment. The third and the fourth sections belong actually into the wide range of interactive approaches as they take the interaction as a starting point. The first of them looks at entrepreneurial identity as an element through which entrepreneurial behavior may be understood better. The last section is based on motivation theories, and especially the expectancy theory is used in an attempt to understand entrepreneurship.

5.1. The trait approach to entrepreneurship

In the 1970's the so called trait approach was dominating the literature of entrepreneurship. In its extreme form trait approach, and the scholars following it, argued that entrepreneurs are born. That mean entrepreneurs get certain traits in birth and those traits lead them to entrepreneurial career. This kind of extreme trait determinism does not hold critical investigation. Actually, most researchers following trait approach spoke about tendencies and correlations by which they tried to find out how remarkable is the difference between "normal population" and entrepreneurs in terms of various traits. Often these studies have, however, been looking for only one stereotypical character, the classical entrepreneur, and contrasted this character with the non-entrepreneurial counterpart.

Perhaps the most investigated trait ever is *need for achievement* (nAch). It was McClelland who made that particular trait familiar in entrepreneurship research. McClelland himself studied nAch at the macro level trying to find out whether there is variation between different nation's level of nAch and whether there is some relation between measured nAch and entrepreneurial activity. Along with the need for achievement (McClelland, 1961) *the locus of control* (Rotter, 1966; Levenson 1973) and *tolerance of ambiguity* as well as *creativity* have often been linked to entrepreneurship. Bateman and Crant (1993) defined a measure for *the proactive personality*.

The trait approach has found various linkages between personal characteristics and entrepreneurship. Also these relationships are usually quite weak, but it can be argued that traits in

general possess at least some explanatory power with regard to entrepreneurship. The critique on the trait approach has for example focused on the fact that it has not succeeded in defining a unique entrepreneurial stereotype with a certain pattern of characteristics, and that the relationship between a trait and actual behaviour is weak (see e.g. Chell, 1985).

The trait approach has got quite a heavy criticism, especially in the time it was dominant in entrepreneurship research. For example Kilby (1971) wrote that entrepreneurship research is like a searching for a Heffalump (a character in a fairytale). Everybody knows what it looks like and everybody talks about it. But nobody has ever seen one! He meant that such kind of person can not be found in reality, because there can not be one which resembles completely the idealized picture of entrepreneurship drawn by the trait approach. Even though trait approach has been criticized heavily, it can be seen as one source of understanding of entrepreneurial behavior.

5.2. Integrative approach

Integrative approach can be seen as a further developed version of trait approach. The personality is still there, but the individual's environment is taken also into consideration in attempts to understand entrepreneurial behavior.

Traits alone have a limited explanatory power on entrepreneurship. As a solution to this problem an interactive approach (interactionism) tries to explain entrepreneurial behavior as a function of the person and environmental conditions (Chell, 1985: 48). Huuskonen (1992) has also discussed the co-effect of personal characteristics and the reality individuals live in. In his approach the person's subjective interpretation of the objective reality functions as a triggering element toward an entrepreneurial career. Values and attitudes in general and especially those linked closely with entrepreneurship are connected with entrepreneurial career development. Environmental observations shape people's attitudes and beliefs. Attitudes and beliefs influence the potential entrepreneur's view when he or she compares entrepreneurial and non-entrepreneurial career alternatives (c.f. Huuskonen 1992: 81-82). Ideological values have been regarded as important determinants of entrepreneurial behavior by classical writers such as Weber and McClelland. Weber relates ideological values directly with entrepreneurial behavior, whereas McClelland uses the need for achievement as an intermediating psychological variable between values and behavior. (Kilby, 1971: 7 - 8).

As to entrepreneurial determinants it is very important to distinguish between personal and external determinants. One of the main messages in Figure x is that the entrepreneurial process is always a personal process, i.e. a person is subjectively involved in it and no external involvement can not realize the process unless the person wants it. Putting it differently, all external push- and pull-factors influence the start-up process through individual actors. More specifically: through the perceptions of individuals.

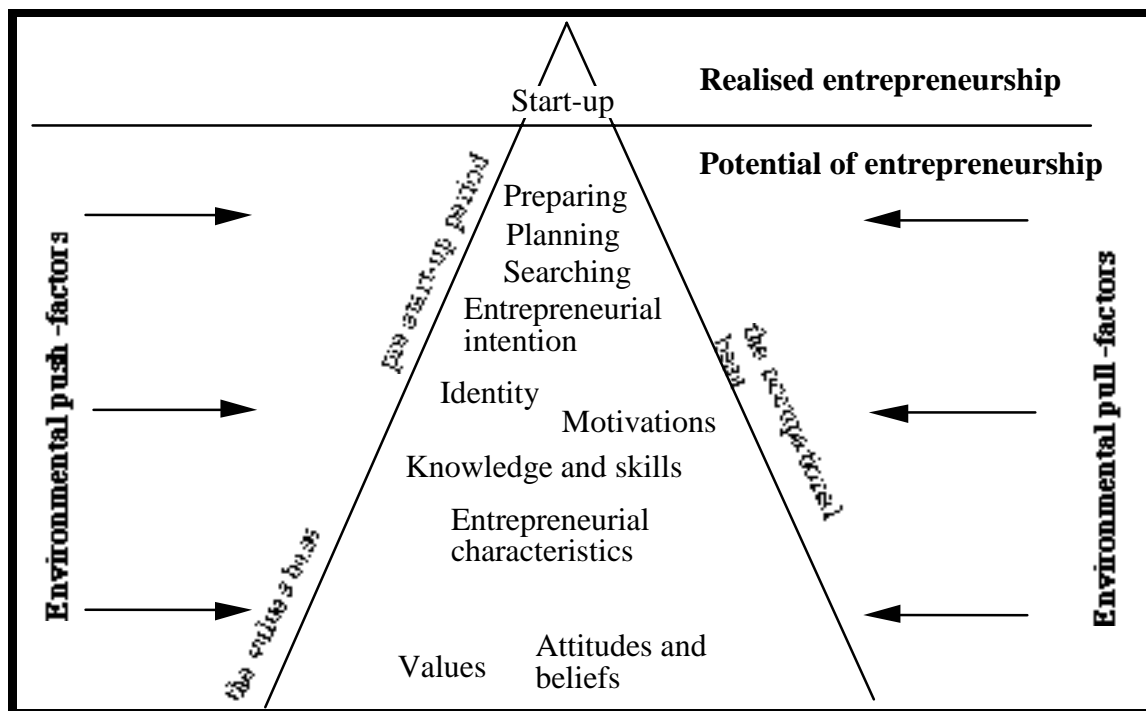


Figure 8. Determinants of entrepreneurial behavior: an interactive view

Figure 8 presents a view, which stresses the interactive nature of the entrepreneurial process (a process by which new businesses are born). In the figure, the push and pull factors are acting as mediating factors between the individual and the surrounding environment. Prior research has dealt with several types of push factors. The failure of a previous organisation, getting fired, or concluding that the organisation or one's career is not progressing can also be treated as factors 'pushing' towards entrepreneurship. (Collins et al, 1964, Shapero and Sokol, 1982; Vesper, 1983). Push- and pull-factors are usually connected with the start-up process of a new firm. However, it is also possible to argue that several environmental factors influence the development of a person's value base as well as occupational base. Moreover, the environmental factors change during a person's development. In the early years the environment provides the cultural prerogatives needed

for primary and secondary socialization (Berger and Luckmann, 1966), changing then from fostering and supporting to forming structures, expectations, pressures and obstacles.

5.3. Entrepreneurial identity

The concept of entrepreneurial identity has its roots in entrepreneurial types used to differentiate between various types of entrepreneurs. Especially Stanworth and Curran's (1976) definition of the entrepreneur identity is well known. Following Gouldner (1958) they used the concept of *latent social identity* to deal with "the several possible constellations of meanings which may form the core of the entrepreneur's self-definition of the entrepreneurial role" (Stanworth and Curran, 1976: 104).

Identity search, understanding oneself within one's social environment, has been considered as one of the main themes of human life. In *socialization* the surrounding culture, values and norms are absorbed by the new member of the society. Also the so called *important others* and more distant role models affect the socialization and mental growth of young people. These are also the building blocks of identification. Socialization is mainly the mechanism, through which the surrounding environment affects the existence of entrepreneurially identified individuals and the appearance of entrepreneurship..

Identity develops in youth so that occupational identity is one of the latest areas of development. (Erikson, 1959) Identity may have a *foreclosure status* in the sense that a young person has taken the identity for granted e.g. as a legacy from his/her parents. In another path of development, *identity achievement*, the young person looks for and tries out several different identities and on the basis of the cumulated experience he/she chooses one. Identity becomes reevaluated at different stages in life, when conditions of life change and when crises are encountered. (Marcia, 1980). Identity has been distinguished in several areas: clarity of definition of one's self, commitment to values, beliefs and objectives, activity towards these commitments, consideration of identity alternatives, approval of one's self, and thrust in one's own future (Waterman, 1982).

Schein's (1978) theory of career anchors sheds more light on the discussion of the formation of individual's occupational identity. Schein argues that as people move into their careers they gradually develop clearer self-concepts in terms of their:

1. Talents and abilities; they discover what they are and what they are not good at
2. Motives and needs; they determine what they are ultimately seeking out of their career (e.g., good income, security, interesting work, or opportunities to be creative).
3. Values; they realize what kind of company, work environment, product, or service they want to be associated with.

Schein continues by arguing that "talents, motives, and values become interrelated in a total self-concept through a reciprocal process of learning." This learning process can be seen as an important linkage between *the values base* and *the occupational base*. It can be argued that entrepreneurial identity is the central concept of *the occupational base*. It is anchored in the values and occupational experiences, education as well as motivations, and it strengthens and changes the entrepreneurial intentions according to the circumstances. Also external factors like entrepreneurial culture or the existence of entrepreneurial 'heroes' as living examples of entrepreneurship have a certain influence on each person's occupational entrepreneurial identity.

Schein originally defined eight career anchors: (1) Security/stability, (2) autonomy and independence, (3) entrepreneurship, (4) technical/functional competence, (5) managerial competence, (6) service, (7) pure challenge, and (8) life style. The original career anchor of entrepreneurship is defined on the very strict basis of Schumpeterian entrepreneurship where extreme creativity and the need for creating a new business are the dominant features of the anchor. In the light of varying entrepreneurial roles (e.g., from self-employed to owner-manager or from artisan to classical entrepreneur) the entrepreneurial career anchor serves as too narrow a perspective to understand entrepreneurs' career decisions. Taking an opposite approach to the anchors it can be argued that only the anchor of security/stability is clearly against all entrepreneurial career alternatives.

Occupational entrepreneurial identity is based on varying entrepreneurial identities and its main rationale can be crystallized by asking *if entrepreneurship, what kind of entrepreneurship?* On the basis of the above discussion the entrepreneurial identity can be defined as a person's inclination to adopt a certain type of occupational entrepreneurial role. It has a career anchor -type of nature in that it is latent (social identity) and it becomes more explicit when the person becomes older and more experienced in different occupational situations.

The subjective interpretation of an individual's identity is important when we are trying to understand why some people choose entrepreneurial career instead of working as a hired employee, specialist or manager. It is important to notice that objective facts, for example the psychological characteristics do not explain the starting up as an entrepreneur, but the perception one has on him/herself has more power in that sense. Thus individuals can perceive themselves as entrepreneurs or having such an identity regardless of that interpretation being a "right one" (that the person really is like he perceives himself). The own experience counts most. Having an entrepreneurial identity seems to have more central role in the background of entrepreneurial career than the traits or characteristics alone.

There two important elements present in the identification process. The first is self-knowledge, by which an individual becomes aware of own personality and life orientation which seems to suit well. Self-knowledge is a question of experience. The other is self-efficacy. Self-efficacy refers to a person's belief in his or her capability to perform a given task. Self-efficacy also affects person's beliefs regarding whether or not certain goals may be attained. (Boyd et al., 1994: 66). Through these two mechanisms people evaluate themselves in relation to the entrepreneurship they have in mind. Entrepreneurship is perceived differently amongst individuals due to their different base of experience. Thus there is also another subjective interpretation: how the individual perceives entrepreneurial role, in other words, what is the person's own stereotype of entrepreneurship. The identification process consist of two subjective perception mechanisms: 1) how people perceive themselves (self-knowledge and self-efficacy) and 2) how they perceive themselves in relation to that particular entrepreneurship they have in mind (figure 9).

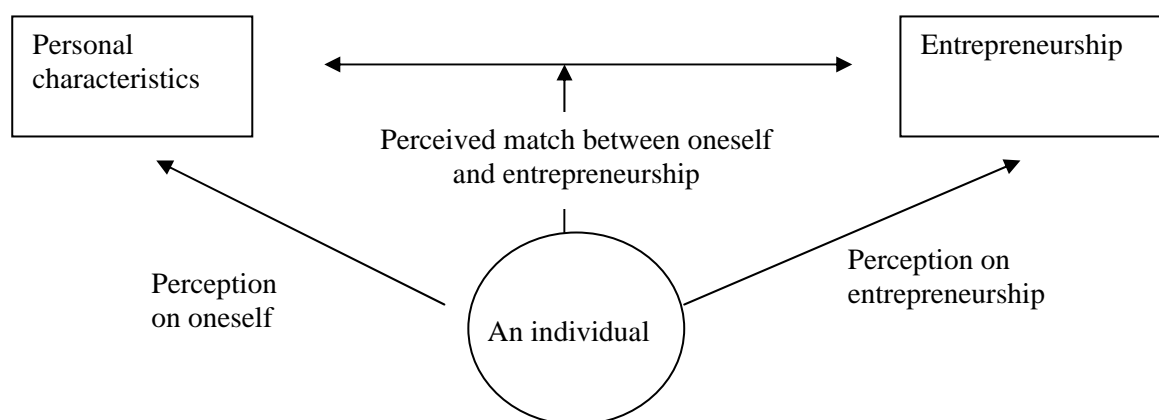


Figure 9. Subjective interpretations and the personal identification process

We made a research, which dealt (among other things) with the question of how the Finnish work-aged people identify themselves as possible entrepreneurs. We described 19 different descriptions of entrepreneurial role model and asked people to evaluate how well those roles fit to them. The data consisted of 485 responses.

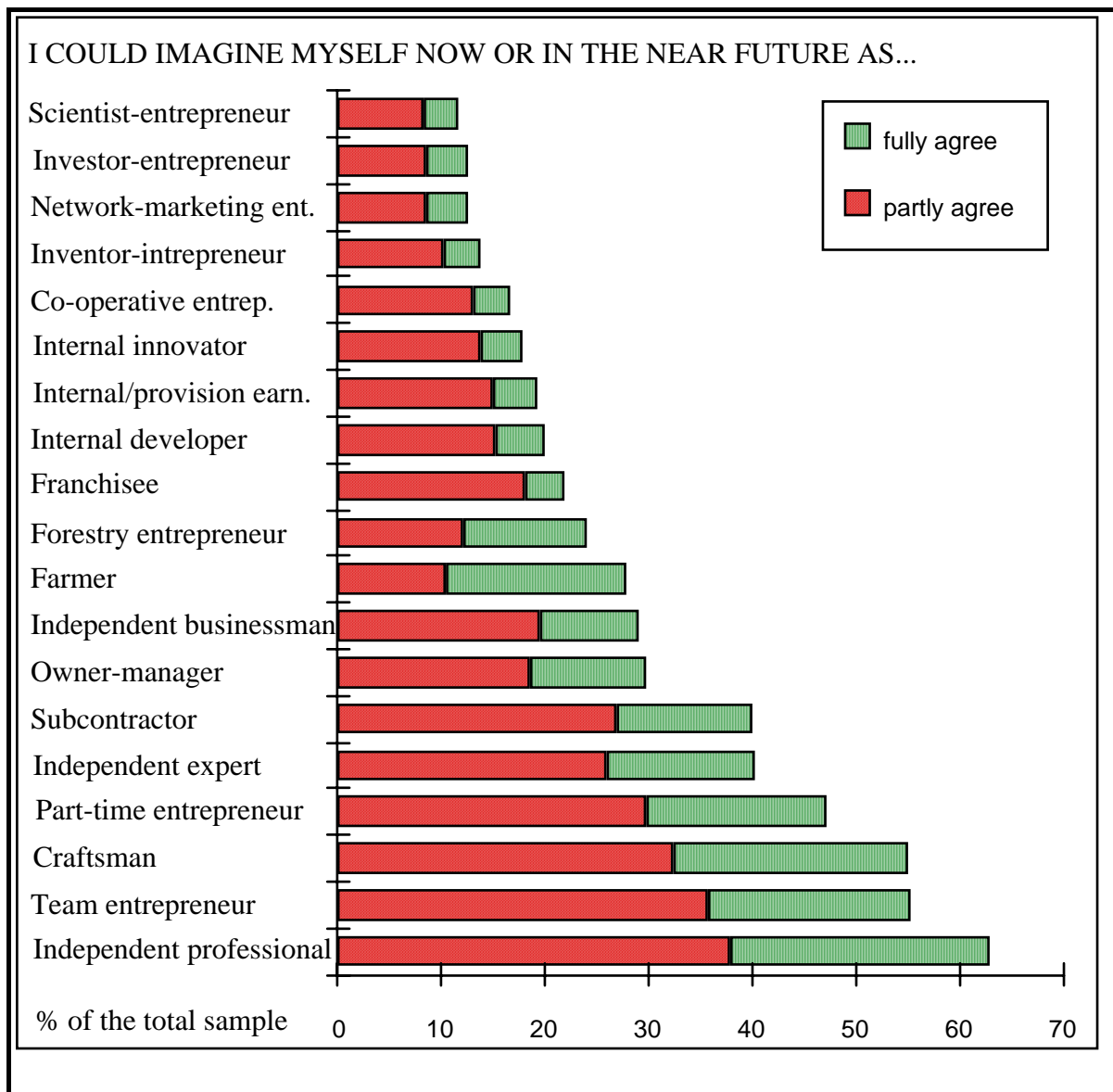


Figure 10. The distribution of entrepreneurial identities in work-aged population of municipality Laihia

The distribution of all the 19 entrepreneurial roles is presented in Figure 10. It can be noticed that the most popular entrepreneurial role is that of *an independent professional*. This may include several

possible roles of professional solo entrepreneurship like lawyers, consultants, doctors or other professional experts whose expertise is acquired through education and experience. Over 60% of all respondents could at least partially agree that this kind of an entrepreneurial role might be appropriate for them.

When the data was analyzed further, it was found five distinct entrepreneurial identities:

Classical identity, which is characterized by businessman and owner-manager identities as well as the more opportunistic and innovative identities of innovator and scientist.

Intrapreneurial identity, which is characterised by innovative behaviour, a positive attitude towards flexible reward system, and activity towards various development tasks within an organisation.

Custopreneurial identity, in which entrepreneurial roles of franchising, cooperative entrepreneurship and network-marketing entrepreneurship dominate.

Farmer identity, where both farmer identity and forestry entrepreneur identity are the most characteristic features.

Craftsman identity, which is characterised by craftsmanship and independent professionalism. The analysis was continued by grouping the population in groups according to their entrepreneurial identity. It was found that 16,7 % of the population belongs to a group, which do not have any kind of entrepreneurial identity. A farmer identity was adopted by 20,2 %, classical entrepreneur identity by 21 %, intrapreneurial identity by 18,1 % and custopreneurial identity by 23,9 % of the respondents.

5.4. Motivation structure and entrepreneurship

Motivation is a strong determinant for action. There are several types of motivation theories available in order to explain or understand human behavior. In the following one of them, namely the expectancy theory, is considered more closely and used in our attempt to understand entrepreneurial behavior.

The roots of various expectancy theories of motivation are in Lewin's Field Theory. The so-called Lewinian formula ($B = f(P, E)$) considers behavior as a function of a person and his environment. A person and his environment are seen as a system, "psychological life space". In this life space there are various fields, which offer different kinds of elements to the person. Each person sees the environment subjectively, thus reality is different for different people. One of the main explanatory concepts of behavior is *valence*. Valence can be seen as a vector of power, which has the strength

and the direction (Vroom, 1964). It is determined by a person's internal value for a thing (e.g. money), and the attractiveness of a certain field (e.g. entrepreneurship) to fulfill the need. Vroom (1964) defines motivation (the force to perform an act) as a function of valence and expectancy. Furthermore, valence is a function of perceived value and perceived instrumental value of an anticipated behavior.

Applying this reasoning to an entrepreneurial decision, the motivation to start-up is stronger the more a person (1) perceives that the rewards from entrepreneurship (instrumentality) can satisfy the needs which are important for him (value), and (2) the more probable he sees that he is going to succeed in the tasks related to entrepreneurship. All these considerations are subjective perceptions, meaning that entrepreneurial motivation can be very different between different individuals due to their different perceptions of entrepreneurship. For example, even a person who values safety and social contacts high in his motivation structure can have entrepreneurial motivation, so long as he perceives that entrepreneurship can fulfill those needs, and that he can cope with the tasks involved in entrepreneurship.

To further explore the expectancy theory's applicability to entrepreneurship we will turn to Staw's (1977) useful scheme for grasping the essential notions of the expectancy model. Although Staw's original model was used in relation to work motivation, here we apply the model to discuss the various aspects of entrepreneurial motivation. Staw's original model is shown in figure 11. The principal elements in the scheme are the classes of rewards and the subjective probabilities (P's) of obtaining those rewards.

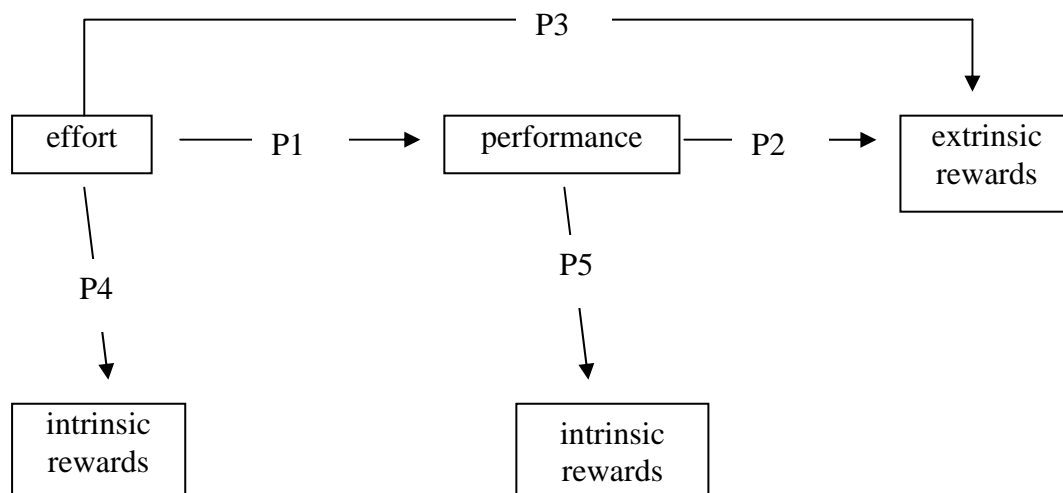


Figure 11. An expectancy theory model of the determinants of level of work effort (Staw, 1977)

Entrepreneurial behavior can be seen as a corresponding concept for "effort" in the model. Then P1 is the perceived probability for a person to succeed in the tasks of entrepreneurship. It is important to notice here that entrepreneurship is also seen subjectively, and different persons may have very different view of entrepreneurship in their minds. Thus subjectivity is related both in the way a person judges his/her possibilities to succeed and in the way entrepreneurship is defined by him/herself. As a concept P1 comes very close to self-efficacy. P2 represents the subjective probability of a person to achieve extrinsic rewards through successful entrepreneurship. P3 is a typical motivational expectancy for hired employees indicating that just mere effort would lead to extrinsic rewards. This type of expectancy does not belong to pure entrepreneurship. However, when governmental subsidies are given to start-up entrepreneurs they lead to P3 –type of motivational expectancies among the would-be entrepreneurs. P4 –type of expectancies are a person's subjective probabilities for achieving intrinsic rewards through entrepreneurial action. Typically, such motivational factors as need for independence and the need to realize one's own ideas belong to this category. P5 –type of expectancies represent those intrinsic rewards that are related to entrepreneurial success, e.g. "to see one's ideas to become true".

In a research dealing with the relationship between personal motivation structure and entrepreneurship (Vesalainen & Pihkala, 1999), there was an attempt to measure individual motivation structure in general and the instrumental value that entrepreneurship was perceived to offer. The target population was the Finnish work-aged people. Both motivation structure and instrumental value of entrepreneurship were measured by a questionnaire. Table 3 and 4 show the measures and the results of the study.

Table 3. Perceived value of different rewards in general (personal motivation structure)

| How important are the following rewards to you? Choose three most motivating and three least motivating factors (coding: 1 = least; 2 = neither most nor least; 3 = most) | | |
|---|------|---------|
| <i>n</i> = 2899 | Mean | Std dev |
| Secure earnings | 2.54 | .63 |
| High payment | 2.25 | .76 |
| Possibility to grow and learn | 2.21 | .65 |
| Independence | 2.19 | .72 |
| Membership of a group | 2.15 | .69 |
| A possibility to use one's innovativeness and creativity | 2.08 | .73 |
| A possibility to plan and decide on one's own working hours | 1.97 | .69 |
| Enough free time | 1.88 | .73 |
| Occupation's societal value | 1.57 | .68 |
| Status and power | 1.25 | .52 |

Looking at the table 3 it is possible to see the general motivation structure of the Finnish work-aged population. Secure earnings and high payment are in top of the list.

Table 4 presents the results of the perceived instrumental values people in general connect with entrepreneurship. We can see that innovativeness and independence are most generally perceived instrumental values of entrepreneurship.

Table 4. Perceived instrumentality of entrepreneurship (motivation structure of perceived entrepreneurship)

| Compared with working as a hired employee as an entrepreneur I could... (ranges from 1 to 5) | | |
|--|------|---------|
| n = 2899 | Mean | Std dev |
| ...better use my creativity and innovativeness | 3.49 | 1.05 |
| ...be more independent | 3.43 | .95 |
| ...have a possibility to better decide on my working hours | 3.29 | .98 |
| ...have better a possibility to develop myself and learn | 3.25 | .92 |
| ...have higher earnings | 3.16 | .95 |
| ...have higher organizational status and more power | 3.07 | .91 |
| ...have higher social status | 2.97 | .93 |
| ...better relationships with peers | 2.72 | .87 |
| ...have more secure earnings | 2.72 | .97 |
| ...have enough free-time | 2.65 | 1.03 |

It is interesting to compare the two lists and see how different motivation factors are positioned one the one hand in the motivation structure list and on the other hand in the instrumental value list. Differences may be one possible explanation why Finnish people do not usually want to start as an entrepreneur. The match between personal motivation structure (what I want) and instrumental value of entrepreneurship (what entrepreneurship gives) is too weak.

Questions for reflection:

1) Compare your own motivation structure and the instrumental value you see that entrepreneurship can offer if compared to the situation you would work as an employee, expert or manager in somebody else's company or organization.