

# Entrepreneurship

and small firms



David Deakins & Mark Freel

4th edition

# Entrepreneurship and Small Firms

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**David Deakins and Mark Freel**

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# Preface

This fourth edition *Entrepreneurship and Small Firms* continues our policy with this text of using the new editions as an opportunity to revise all the chapters and to introduce new material, reflecting current issues, research and academic debate on entrepreneurship and small firms. For example, in this edition, the reader will find new chapters on 'Diversity in Entrepreneurship' and 'Family Businesses', reflecting the increased importance that has been given to these areas in research, academic study and policy. In addition, a number of chapters have either been re-written or extensively revised, such as the chapter entitled 'Entrepreneurial Activity, the Economy and the Importance of Small Firms', which has been rewritten to take a more European and international approach to this material. Other changes include the removal of a specific chapter on enterprise support; following reviews and feedback on the third edition, it was felt that this could be accommodated in other chapters, where appropriate. Thus a section in Chapter 3, for example, examines the role of support agencies in supporting women and ethnic minority entrepreneurs and supporting diversity in entrepreneurship. A further section, in Chapter 11, focuses on the role of support agencies in assisting business creation.

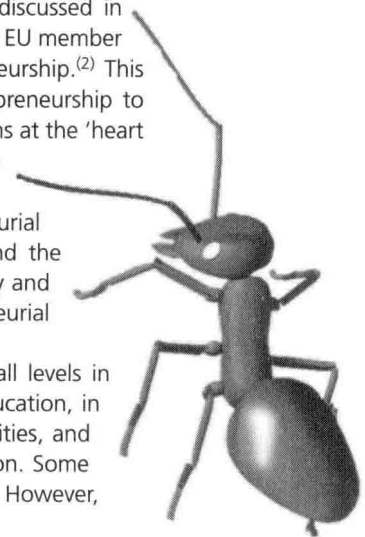
Readers familiar with previous editions will also find that the chapters have been restructured with some changes in sequence, but of course the overall style has been retained, with many of the features introduced in the third edition, such as 'Entrepreneurship in Action' boxes, case studies and suggested assignments. In order to accommodate some of the new material for this edition, some of the in-depth case material has been moved to the online student resource centre. To get the most benefit from this edition, students should consult this online resource material, which now contains a significant amount of additional material to supplement the case material. We have, of course, retained and revised the tutors' online resource material, which contains lecture slides and additional material not available to students.

The introduction to the third edition discussed the policy commitment of the UK Government as expressed in the following statement:<sup>(1)</sup>

*Government is committed to making the UK the best place in the world to start and grow a business. (p. 4)*

Taken from the Small Business Service's (SBS's) recent publication of *A Government Action Plan*, it represents a continuing emphasis for government policy on the importance of entrepreneurship and small firms for the vitality of the UK economy. As discussed in Chapter 2, this is something that has become a characteristic of policy for the EU member nations, embodied in the publication of the EU Green Paper on entrepreneurship.<sup>(2)</sup> This paper focuses on creating the right conditions and environment for entrepreneurship to flourish. Of course, placing the importance of entrepreneurship and small firms at the 'heart of policy'<sup>(3)</sup> is one thing, creating an environment in which entrepreneurship can thrive is another matter. The publication of the SBS's Action Plan<sup>(1)</sup> is a welcome attempt to identify some of the barriers to increased entrepreneurial activity in the UK, and the role that support bodies (such as the SBS) and the network of support agencies can take in encouraging entrepreneurial activity and improving the environment, especially in deprived areas, where entrepreneurial activity is more difficult.

Having an integrated approach is something that will be important at all levels in society, hence we have seen the development of enterprise initiatives in education, in deprived areas and with targeted groups, such as women and ethnic minorities, and related policy measures such as changes in taxation, incentives and regulation. Some of these initiatives are discussed in the text, especially in Chapters 3 and 11. However,



as mentioned in our Introduction to the previous edition, such initiatives eventually affect us. For example, the government has stated previously that:<sup>(3)</sup>

*The Government's direct interactions with SMEs form part of the overall picture but they are by no means the whole story. People may be put off starting a business if the environment in schools, further and higher education is discouraging and there are no effective role models available . . . Media stereotypes of business may cumulatively be discouraging. (p. 7)*

The increased attention given to education, through a number of enterprise initiatives is something that is taken up in Chapter 11. The discussion of the importance of the financial environment is taken up in Chapters 4 and 5, technology, innovation and e-business is covered in Chapters 6 and 7, and Chapters 8 and 9 focus on growth and international entrepreneurship. All these topics reflect the importance of creating an appropriate infrastructure at all levels of society if the government is eventually going to achieve the aim of making the UK the best place in the world for entrepreneurship and small firms.

As mentioned, this fourth edition has retained the learning and pedagogical features that were introduced with the previous edition. Learning outcomes are given at the start of each chapter; boxed examples, titled 'Entrepreneurship in Action', are provided throughout the text, and Review Questions are also incorporated to review the material and to allow the reader to reflect upon the material and develop alternative concepts. However, the reader familiar with the previous edition will notice that the sets of review questions are now grouped at the end of each chapter. Suggested Assignments are given for each chapter; some of these incorporate or draw upon the additional material available in the student online material. Finally, the reader should find that the references have been completely updated, reflecting recent changes and the policy agenda discussed briefly above, and also that the Recommended Reading sections have been updated and are included at the end of each chapter.

## Using the Text

This text is aimed at undergraduate and postgraduate students of entrepreneurship, enterprise, small firms and business venturing. Comments on using the text are provided here for students and lecturers.

**Students** will find that the text has been designed to be read in digestible sections. Chapters are broken up with highlights such as the 'Entrepreneurship in Action' features and with Review Questions at the end of the chapter. These questions do not treat each of these sections in isolation; rather they try to encourage the student to consider some of the implications raised in the chapter's content and material and attempt to get them to think further and perhaps link the material to that in other chapters of the text. Hints are given to enable them to do this. Suggested answers to the Review Questions are provided in the student's online resources material. These are not meant to be prescriptive, but provide an indication of the ways to think about the questions set, which may be in a discussion form.

The text is designed to cover entrepreneurial and small firm theory, concepts, evidence, policy and practice. It is designed to link these areas together. For example, discussion of entrepreneurial concepts is followed by practical mini-case examples or discussion of theoretical issues in small firm development; discussion of the growth of small firms is followed by a discussion of evidence; discussion of business creation is followed by discussion of some of the policy implications and policy measures, as well as practical examples. You are encouraged to link these distinct elements together through the Review Questions and Suggested Assignments. For example, you may be asked to relate entrepreneurial concepts to a practical case study.

The detailed case studies, most of which are in the online student resources for this edition, are all real entrepreneurial cases. In some of them, names have been changed to preserve anonymity. They are designed to take you to a decision point in the case study, to put you in the place of the entrepreneur. This may form part of a class group discussion in which you discuss the different paths the entrepreneur(s) may take and give a recommended course of action. It is important to realise that there is ambiguity in entrepreneurial decision-making. An ability to recognise different options can be as important as the actual decision made. A number of options can be equally valid courses of action, in other words, there is not necessarily one right answer. However, there are, for some of the detailed case studies, further sections provided in the online student learning material and further information in the online tutors' material (some of this information is available for registered tutors only).

While much of the material in this text is designed to enable you to understand entrepreneurship and small firm and enterprise development, to apply concepts, to understand case studies and to understand new policy developments, Chapter 12 also provides a guide to preparing for entrepreneurship through the coverage of research, design and writing of business plans. Of course, other chapters of the book also provide an opportunity to develop skills and to prepare for entrepreneurship through the discussion of case material and practical examples, but Chapter 12 focuses specifically on sources of information, research methods and the planning process. Throughout the text, we combine a focus on *understanding* with *doing*; a combination of enterprise skills should be developed if you use the review questions, material, case studies and assignments in the book throughout your course. These enterprise skills include problem-solving, creative thinking, research and information gathering, presentation and strategic planning. The value of developing these enterprise skills is that they are *transferable*, whatever career is undertaken. Increasingly employers are seeking graduates with transferable enterprise skills, who can think entrepreneurially, be creative and innovative and communicate new ideas. This is part of the reason for the increased emphasis governments are placing on enterprise education initiatives. We believe that this book will help you to develop those skills and apply them in different problem-solving situations, whether you decide to follow an entrepreneurial career or not. More important, research indicates that most entrepreneurial students do not wish to enter entrepreneurship when they graduate, rather they intend to enter entrepreneurship or self-employment after a period of employment,<sup>(4)</sup> but having undertaken study of entrepreneurship and small firms they are better prepared for such a change of career.

**Lecturers** will be able to use this text for undergraduate and postgraduate courses in entrepreneurship and small firms. As discussed above, it combines concepts and theory with practical entrepreneurial case studies and examples, although the more detailed in-depth cases have now been placed in the student online resources to create additional room in this edition for the discussion of concepts and content on additional topics, such as the new chapter on family businesses (Chapter 10). It also has policy-related sections, where these are relevant, so that the material is placed in the context of recent developments in entrepreneurship and economic development. As indicated above, additional case material and suggested answers to the Review Questions are available to students through the online student resources.

For this fourth edition, we have retained the tutor online material, originally written by Margaret Fletcher, but revised for this edition. This provides additional course lecture slides and material for teaching purposes, which can be used in teaching alongside this text. The online resource for tutors also contains further information on using the case material in the text. Apart from these additional features, lecturers familiar with the third edition should find that we have rewritten the text to take account of new developments, new research and new policy initiatives in this area.

**Other users** should find that they are able to use this text for a variety of purposes. For example, for training courses for new entrepreneurs, for an understanding of new



developments in entrepreneurship and for an appreciation of concepts applied to practical examples. We hope that this new text will continue to appeal and be of use to a large and varied audience, including potential entrepreneurs, trainers, policy-makers and other users with an interest in entrepreneurship and small firms.

## Chapter Content

The first two chapters are foundation chapters, covering entrepreneurship (Chapter 1) and small firms (Chapter 2); they provide the underlying theory and concepts for much of the material presented in the text. Chapter 1 provides a foundation for many of the concepts on entrepreneurship. It examines the three approaches to entrepreneurship: from economic writers, from a psychological perspective and the socio-behavioural view. Alternative paradigms are also considered. Although the emphasis of the chapter is on different conceptual approaches, underlying evidence to support these approaches is considered with a critical review that emphasises the importance of entrepreneurial learning and entrepreneurship as a process. Chapter 2 builds upon this foundation by covering the importance of small firms and entrepreneurial activity for European economies, with comparisons of importance in different European countries, including those of eastern Europe. Measures of entrepreneurial activity are considered with a critical examination of the relationship between entrepreneurial activity and economic performance.

Chapter 3 provides an assessment of the importance of diversity of entrepreneurship. The chapter has been revised and updated to cover the issues of women's enterprise and ethnic minority entrepreneurship and examines some of the factors that affect the participation of women and ethnic minorities in entrepreneurial activity. Diversity is a theme running through much of the material of the text and, therefore, this chapter provides a further important step in understanding the nature and importance of entrepreneurship and small firms.

The next two chapters, 4 and 5, discuss the nature of the financial environment for entrepreneurs and small firms, focusing on the UK, although with some international comparisons. As with previous editions, the first of these chapters focuses mainly on debt finance – that is, the banks – and the latter on equity finance – that is, formal and informal venture finance.

Chapters 6 and 7 discuss the nature of rapidly changing environments and concepts in entrepreneurship and small firms concerned with innovation and e-business. Chapter 6 discusses the relationship between innovation and entrepreneurship, building on and developing many of the concepts that were introduced in Chapter 1. The chapter develops additional concepts in innovation and examines the advantages of small firms in the innovation process. Chapter 7 has been revised to update material on e-business, an increasingly important dimension for all entrepreneurs and small firms. The chapter examines the role of information and communications technologies (ICT) in small firms and examines how entrepreneurs can take advantage of ICT and e-business.

Two entrepreneurial processes are examined in Chapters 8 and 9, those of growth and internationalisation. The nature and process of entrepreneurial growth firms is discussed in Chapter 8, with discussion of both theory and evidence on growth firms. Chapter 9 examines the process of internationalisation of firms, again with discussion of theory and evidence. The two chapters draw out some of the similarities to be found in models of the two processes, which, of course, are not mutually exclusive.

Chapter 10, on family businesses, is a new innovation for the fourth edition. This chapter examines the nature of relationships in family businesses, which are now an important part of modern entrepreneurial economies. The chapter also examines specific issues in this area, notably succession planning, with a discussion of general principles applied to specific case studies.

The last two chapters focus on business start-up and creation. Chapter 11 discusses issues in business start-up, including creativity, opportunity recognition and business

development. This chapter provides the basis for the more practical approach of Chapter 12, which focuses on the planning process for business start-up, including the design, writing and implementation of business plans. The material in the final two chapters has been revised and updated for the fourth edition.

David Deakins  
2005

## References

- 1 Small Business Service (2004) *A Government Action Plan for Small Businesses: The Evidence Base*, SBS/DTI, London.
- 2 European Commission (2003) *Entrepreneurship in Europe*, Green Paper, Brussels [http://europa.eu.int/comm/enterprise/entrepreneurship/green\\_paper/](http://europa.eu.int/comm/enterprise/entrepreneurship/green_paper/).
- 3 Small Business Service (2001) *Think Small First: Supporting Smaller Businesses in the UK: A Challenge for the Government*, SBS/DTI, London.
- 4 Anderson, M., Galloway, L., Brown, W. and Wilson, L. (2003) 'Skills Development for the Modern Economy', paper presented at the 23rd ISBA National Small Firms Conference, Guildford.



# Guided Tour

## Learning Objectives

Identify the abilities and skills the student should be able to demonstrate after reading the chapter.

## Information and Communications Technologies and E-business

CHAPTER  
7

By Dr Laura Galloway\*

### Learning Outcomes

- At the end of this chapter you should be able to:
- 1 describe factors that affect the adoption of ICT by entrepreneurs and small firms
  - 2 discuss the ways that entrepreneurs can strategically use ICT
  - 3 explain how different environments and policies can affect the adoption of ICT by entrepreneurs and small firms
  - 4 describe the different ways that entrepreneurs can utilise e-business and trading on the internet
  - 5 discuss the potential business benefits of ICT and internet use
  - 6 describe some drawbacks of internet business strategies that must be taken into account by firms
  - 7 discuss the strategic benefits of collaborative/online business for firms
  - 8 describe entrepreneurial e-business strategies
  - 9 describe examples of e-business and internet start-up businesses



\*See the end of the chapter for more from Laura Galloway along with relevant level 1 and 2 learning outcomes, and a list of relevant references and a list of relevant e-resources.

In any given sector, and Anderson and Levina note that internet use for business among small firms is highly variable as 'progressive SMEs engage in e-commerce, but many (others) are stuck at the web presence point'. However, contrary to findings that firms in small firms have even lower rates of ICT take-up than those elsewhere, this study involving the authors found that the rate of ICT use in firms in small firms was actually higher than elsewhere<sup>(1)</sup>. However, the extent to which ICT use used by respondent firms in the sample firms from this study was limited. It may be the case that assessment of ICT is growing among small firms, but the increased information as to how they can impact on business practice at the firm level is required.

These have been, and continue to be, various reasons why ICT take-up among small businesses is relatively low. Suggested reasons for low take-up of ICT in small firms are given in the accompanying box.

### Reasons for Low Take-up and Use of ICT by Small Firms

- The limitations of the technology available, such as cost, and availability and speed of internet access (100% rates of which will be expected in time as costs reduce and higher speeds of internet access, such as broadband, evolve)
- Cost and availability of ICT expertise
- Time and effort required for acquiring new ICT skills<sup>(2)</sup>
- Lack of perceived lack of need, as many small firms take technology as either used or unused by conventional business methods, while others who might well benefit from ICT can not be aware of the potential benefits for their firm<sup>(3)</sup>
- An absence to inclusive business practices, or 'organisational inertia'<sup>(4)</sup>

Despite the various identified barriers to adoption of ICT in small firms, many are missing the significant advantages that can be achieved.

### The Use of Standalone Technology

The use of technology includes the use of non-internet-based tools and there is evidence that these office technology solutions are used in a larger extent, and have been used for longer, in firms than are internet-based technologies<sup>(5)</sup>. For example, 'Quicken' (like spreadsheets like Excel and Word), which based their business use of ICT 'tended to be confined to tasks to automate standard administrative functions such as accounting, budgeting, inventory control and word processing packages' rather than extended to communication technologies (p. 234). The use of standalone technology for business purposes has had a highly significant effect on business operations, in that their use is now almost universal<sup>(6)</sup>. There is no doubt that, for small firms, the adoption of standalone ICT applications (most specific business needs) can provide benefits and, indeed, can often be a fundamental aspect of competitive advantage<sup>(7)</sup>.

Research studies have found that the three most commonly used ICT applications in small firms are:

1. word processing
2. financial management
3. producing accounts

These are all examples of standalone ICT use, rather than internet-based communication technology. The technological understanding of business has not,

## Boxed Features

These are highlighted throughout the chapter to aid the understanding of the concepts and theories developed.

Table 2.3: Entrepreneurial Contribution to Total Employment for Six Cities: 2000

	entrepreneurs	small	medium	large	total
Australia	24.0%	21.8%	18.0%	45.3%	36.5%
Belgium	42.8%	15.0%	15.0%	66.9%	31.1%
Germany	28.3%	22.3%	17.0%	68.8%	31.3%
Finland	26.1%	17.2%	15.9%	59.2%	40.0%
France	31.8%	16.7%	14.2%	66.2%	31.1%
Switzerland	18.7%	20.3%	11.1%	59.8%	45.2%
Spain	16.8%	17.1%	12.8%	66.7%	13.5%
Ireland	25.9%	18.0%	8.6%	53.4%	47.4%
Israel	21.4%	23.0%	20.7%	69.6%	30.4%
Italy	48.2%	21.1%	11.0%	80.3%	19.7%
Luxembourg	23.3%	24.2%	25.1%	52.3%	27.6%
Netherlands	24.0%	18.4%	18.1%	62.5%	29.5%
Norway	31.9%	20.2%	11.9%	70.9%	29.3%
Portugal	37.7%	23.0%	18.1%	58.9%	27.1%
Spain	46.8%	20.0%	12.6%	79.4%	20.6%
Sweden	27.7%	18.1%	15.9%	61.4%	36.6%
Switzerland	23.1%	20.0%	21.7%	68.0%	33.2%
UK	29.2%	14.2%	11.8%	55.3%	40.7%
USA	36.3%	16.0%	12.0%	68.7%	33.7%
European-12	34.3%	19.0%	13.1%	68.4%	33.6%

EU-12 = 12 member states of the European Union (excluding Greece, Ireland and Portugal).  
EU-15 = 15 member states of the EU plus Switzerland.  
Source: Observatory of European Affairs (2001)

The pattern is not perfect, but there is a general tendency of a north-south divide. Also, identifying who this might be the case is not clear in a strict sense, though one is tempted to suggest that emerging north-south divide, with northern states (EU-12) in the western end of Europe and southern states (EU-15) in the eastern end.

Unfortunately, this evidence does not appear as clearly in the data relating to total employment (Table 2.4). Certainly there is further evidence of the widening gap or, at least, significant economic role of SMEs in some southern and northern European

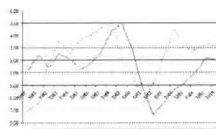


Figure 2.3: GDP Growth and Changes in the Stock of V&T Assets (EU, 1980-2000)  
Source: www.europa.eu

of an 'optimal industry structure', such that a country may have 'better many SMEs' (p. 10). Given its level of economic development, it is relatively appealing for reasons. GEM 2003 recorded the highest 'V&T' developing economies of Germany, France, Spain, Italy and the Netherlands featured among the

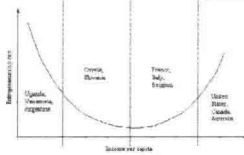


Figure 2.4: The Relationship Between Income per Capital and Entrepreneurship Rate  
Source: Galloway and Thrall (2001)

## Figures and Tables

Each chapter provides a number of figures and tables to help you to visualise the information, and to illustrate and summarise important concepts.



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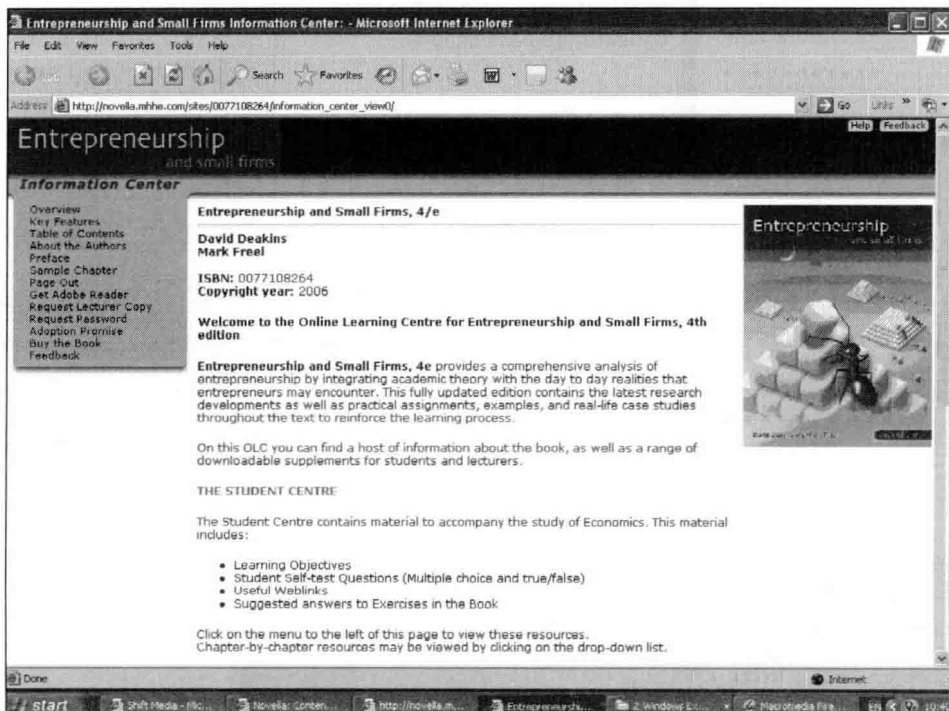
After completing each chapter, log on to the supporting Online Learning Centre website. Take advantage of the study tools offered to reinforce the material you have read in the text, and to develop your knowledge of entrepreneurship in a fun and effective way.

Resources for students include:

- Multiple Choice Questions
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- Weblinks
- Suggested Answers

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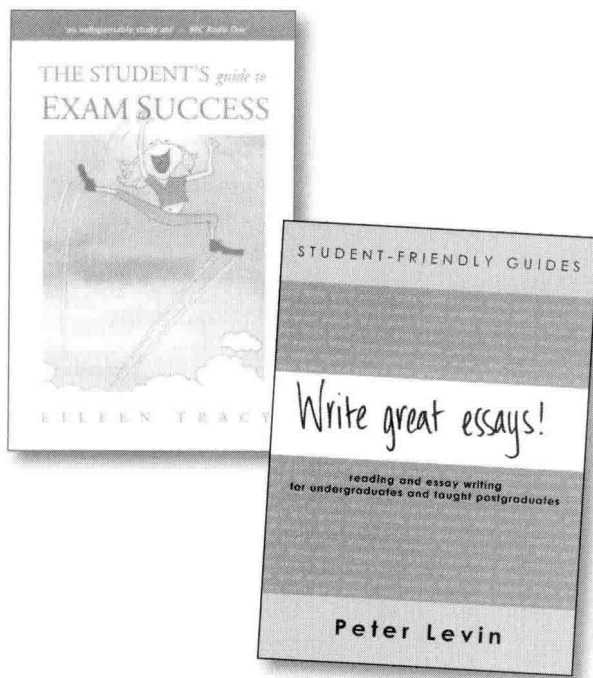
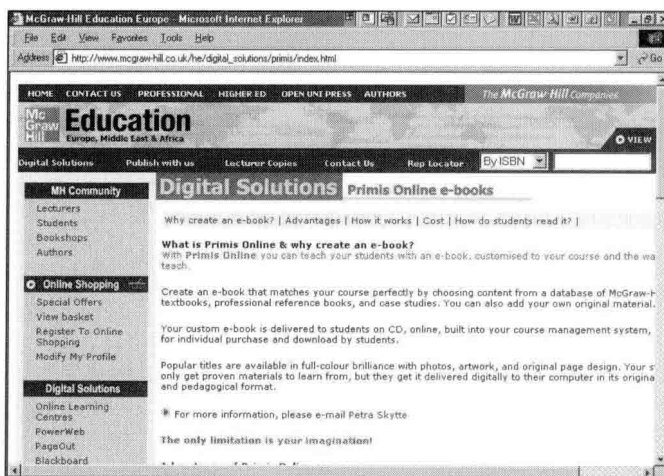
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# Acknowledgements

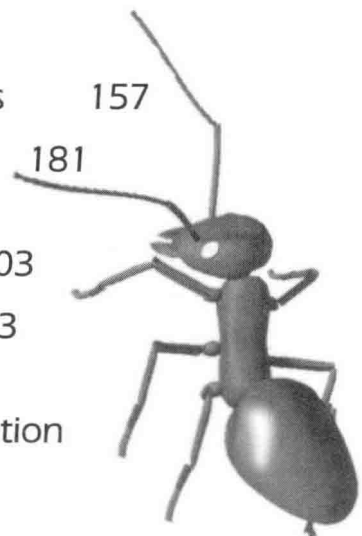
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