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# Entrepreneurship and the Creation of Small Firms

Empirical Studies  
of New Ventures

Edited by  
Carin Holmquist  
and  
Johan Wiklund



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# Preface

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Is European research in the area of entrepreneurship lagging behind the US? After all, bibliometric studies, citations and leading awards in this field of research seem to be dominated by scholars from the US. According to the editors of *Entrepreneurship and the Creation of Small Firms: Empirical Studies of New Ventures* this view is not only too simplistic but also inadequate. Rather, the explanation can be attributed differences in research traditions, both when it comes to publications, the way work is organized and language used. Using Sweden as their case, this book provides insights to these differences and stress that a number of important research contributions in this field do in fact emanate from outside the US. In particular, Swedish research was more oriented towards rigorous empirical, long-term and policy-oriented research. That confronts with research conducted in the US, focusing on shorter articles published in leading international scientific journals. Still, Swedish and European research has also rapidly adapted the US norm. At centre stage in this book are seven contributions by 11 Swedish researchers, spanning advanced methodologies that range from econometric analyses of extensive data sets to case studies and more qualitative approaches. The variety in research issues addressed is similarly impressive, including performance of new ventures, human capital and explanation to internationalization, to mention a few. Hence, this book provides solid evidence that a highly competitive and policy-relevant research tradition also exist in Europe.

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# 1. Introduction

## **Carin Holmquist and Johan Wiklund**

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The reader of back issues of international entrepreneurship journals could easily get the impression that North America totally dominated the field early on and that research from the rest of the world is gradually catching up with an increased number of publications now originating from other countries. To some extent, this image is correct. Birch's study, from the early 1980s, of how small firms generated the majority of new jobs in the US paired with the rise of technology-based new firms such as Microsoft and Apple during the same time, indeed spurred entrepreneurship research in North America. It also led to an insight that the world was transitioning from a big business to an entrepreneurship economy. In official documents this change was acknowledged much later by the EU in the Lisbon declaration of the late 1990s.

Such an image is however too simplistic and uni-dimensional. Entrepreneurship research has a longstanding tradition also outside of the US. Sweden was a very early entrant into entrepreneurship. Dick Ramström introduced small business research at Umeå University in the beginning of the 1970s, inspired by early work done in the UK. This soon became the dominant focus of management research at this institution. Many of the current entrepreneurship professors in Sweden have their research training and wrote their dissertations here. The vast majority of this research was written in Swedish, which of course severely limited readership. Publication in domestic languages has remained a limitation to research dissemination for many European countries. It is only in recent years that English language publication in international journals has become the norm for disseminating results. A drawback is of course that despite large amounts of high quality research, much of it remains unknown to a wider audience.

As Swedish researchers increasingly entered the international research scene during the 1990s, they did so from a strong position, which led to many achievements. Since then, Swedish academics have been editors for leading journals (*Entrepreneurship and Regional Development*, *Entrepreneurship Theory and Practice*, *Small Business Economics*), have hosted major conferences (ICSB in 1996, Babson in 2001), have won multiple best paper

and best dissertation awards at the Babson and Academy of Management conferences, have written some of the best cited works in all the major journals, and the Swede Bengt Johannisson is one of the only two non-English speaking recipients of the FSF-Nutek International Award for Entrepreneurship and Small Business Research. Collectively, these accomplishments show that Swedish entrepreneurship research has a high standing and substantial impact on the international scene. This is further emphasized by the move of Swedish entrepreneurship academics to universities in foreign countries.

The quality of Swedish data is well known and respected in the international entrepreneurship research community. There are however equally important traits that make Swedish entrepreneurship research unique. One such trait is the close interaction between researchers and practical research, from the policy level to the level of individual entrepreneurs. This tradition of problem-driven research, common also in other social sciences in Sweden, has led to real changes in the empirical context based on research. Another unique trait is that different, even conflicting, scientific positions are not only accepted, but acknowledged. Traditionally entrepreneurship researchers in Sweden have debated, communicated and even cooperated crossing barriers posed by different scientific approaches. We will return to these issues in the concluding chapter.

This is the setting for this book on start-up and growth, showcasing Swedish contemporary research on the subject. This book is one of the outcomes of a program that we lead within FSF and we gratefully acknowledge the support of FSF and the help of members of the FSF Scientific Forum, some as authors and some as reviewers (each chapter was reviewed by two persons). In this introduction we present the context of Swedish entrepreneurship research as a general background to the remainder of the chapters.

### **The Swedish Entrepreneurship Context**

As noted above, Swedish entrepreneurship research started in the 1970s with a focus on small business management issues. This empirical focus is reflective of the economic situation of Sweden at that time. Starting in the 1870s, Sweden experienced a century of outstanding economic growth, transcending from one of the poorest countries in Europe to the most prosperous country in the world. Swedish companies were early entrants into the international and global scenes. With increasing globalization, Swedish companies became global conglomerates successively moving sales, production, R&D and management (in that order) abroad. The Swedish economy was, and still is, characterized by a small number of very large, globally leading companies that have been essential in the country's wealth creation. There are a few mid-

sized companies and a large number of small firms. The research that started on small business could be seen a complement to the extensive research that was already carried out with a focus on the large multinationals, the Uppsala School being one famous example.

As economic growth slowed down, it became clear that there were structural problems in the Swedish economy. Relevant to entrepreneurship research, it was evident that the rate of renewal of the economy was low. There were relatively few start-ups of new firms and the vast majority of the multinationals were founded over 100 years ago. The large public sector has also been depicted as a reason for the sluggish transformation of the economy and the few start-ups in Sweden. As the low rate of renewal has been perceived as a problem, research on start-ups and corporate entrepreneurship has come to complement the former strong focus on small business management.

### **Globalization and Mainstreaming of Swedish Entrepreneurship Research**

Not only has there been a change in focus of Swedish entrepreneurship research, but also it is driven by real changes in the Swedish economy. Just as global societal changes have affected the economy and patterns of entrepreneurial processes, these changes have had direct effects on the nature of Swedish entrepreneurship research. This internationalization is facilitated by the rapid changes in information and communication technology and by the increased mobility of academics. Research is today global and mainstream research in virtually any field is conducted in an environment where international publication is the norm. This has led to a context where publications in top-ranked journals and citation impact the most important markers of good research. It has resulted in a change in dissemination of research, from books and reports to the shorter article format, each article often confined to discussing one or two issues from larger research programs. As a consequence, the number of articles being published and the number of journals show an almost exponential increase.

Standardization in terms of language is also evident. Few citations refer to work not published in English – language choice has become a marker for quality in research. Bibliographic research (Danell 2001) has shown that the way internationalization of research is accomplished has also led to a strong Anglo-American dominance in publishing, citation etc. Sometimes to a degree near US (and UK) ‘colonization’ of the rest of the world, i.e. researchers from other countries are adapting to and following the norms of the American research context instead of forming specific, say Swedish or European norms. The citation and publications patterns clearly indicate an

extremely strong US domination – this is also evident in the fact that the annual meetings of the US Academy of Management have become a dominant arena for the global research community in the wide field of management. Notably however, entrepreneurship research has not reached the state of being a ‘global village’ where research from different countries and regions is fully integrated. Citation analyses show that there is regional clustering in terms of research topics and individuals involved in the research (Schildt, Zahra & Sillanpää 2006, Reader & Watkins 2006).

There are however, also very strong positive aspects of this globalization of research. First, it encourages and makes communication of research possible – the use of a common language and common forms, such as articles, facilitates discussion. Second, it provides critical mass in specialized research areas. For entrepreneurship, the number of researchers with a specific specialization in one country is often too small to provide a good research environment. Third, internationalization stresses the necessity of sound and good research practices through competition for publication and citations. Fourth, it creates an arena where the different research field can build legitimacy for themselves.

The main problem with this development is the relative one-sidedness of influence where other traditions than the mainstream ‘speak quietly’ and tend to wither away. There are fewer European outlets, journals and conferences, and we do not see much of cross-fertilization between research traditions. For instance citations to European journals are less common among US researchers (Danell 2001). There is a bias in it that empirical data that is not US or international tend to become marginalized (Holmquist & Sundin 1997). Most importantly, the stream of ideas, publications etc are mainly one-way, i.e. the US research is leading and the rest of the world is following – replicating and/or building on it. This is detrimental to the diversity of research where constant exchange and discussion is vital. Another sign of this US dominance is the cross-country mobility of researchers, where more researchers are going to North America compared to the number of researchers going to Europe. Researcher mobility, over borders, is increasing and many excellent researchers from Sweden choose to move abroad.

Another potential problem is that specific and unique empirical traits are marginalized and treated as having marginal scientific importance. The remedy for this tendency is attention to the empirical setting studied. Currently, there is a gap in entrepreneurship research, a gap created by the decreased focus on problem-driven research.<sup>1</sup> Zahra (2007) argues that all use

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<sup>1</sup> There is growing awareness of this lack of problem-driven research, for instance the August 2007 issue of *Academy of Management Journal* (AMJ) has a forum on ‘Research with Relevance to Practice’

of theory should be anchored in the object of our studies – the phenomenon of entrepreneurship – i.e. theories should consider the context it is applied to. Cross-cultural, comparative and global research programs are also helpful. GEM is an excellent example of this; their results show the multifaceted empirical context of entrepreneurship over the world.

### **The Current Nature of Swedish Entrepreneurship Research**

So, where does the national history and current international mainstreaming leave contemporary Swedish entrepreneurship research? Some previous attempts have been made to characterize this research (e.g., Landström & Johannisson, 2001), but these authors failed to discern any clear patterns. Here, we wish to emphasize the characteristics that we feel have rendered Swedish entrepreneurship research a strong international position and that are also present among the chapters included in this book. We would argue that more than anything, Swedish research is characterized by very strong empirical work. There are several reasons for this. First, access to data is great in Sweden. Swedish authorities collect extensive data on firms and individuals and much of this information is public. Response rates to questionnaires are also notably high. In addition to generally providing for high data quality, this facilitates repeated surveying of samples because of low attrition as well as long questionnaires and inclusion of sensitive questions. Companies are also open to having researchers on site conducting case studies and collecting qualitative data. In sum, it is easy to access high quality data in Sweden regardless of the means used for collection them. Second, building on the Germanic tradition, doctoral dissertations are important independent research works. Swedish doctoral dissertations are published books and PhD students spend several years to complete their thesis. Often they devote more than five years to their PhDs, where most of that time is spent on the actual dissertation. This allows for extensive empirical work and reliance on more time consuming data collection methods than in many other countries. Third, Sweden does not have a tenure system. Therefore, after completing the dissertation, Swedish academics are not under intense pressure for publishing a stream of papers. There are of course drawbacks to the lack of time pressure during and after the dissertation, but one major advantage is that it allows for substantial empirical work and time consuming methods, such as panel studies and longitudinal real-time case studies.

Another defining characteristic is the interest in the relevance of research, in particular as it relates to policy implications.<sup>2</sup> Sweden spends substantial resources on public policy measures and many policy agencies are also major funders of entrepreneurship research. Thus, there is a close relationship between public policy and entrepreneurship research. The earliest studies were done in very close collaboration with entrepreneurs and communities. With the focus on publication, this collaborative research tradition has weakened but it is still strong. Swedish entrepreneurship researchers are heavily involved in formulating policies and forming opinion in Swedish society at all levels.

In their review of Swedish entrepreneurship research, Landström & Johannisson (2001) were unable to isolate any dominating theory or research question. This still holds today. It is not relevant to talk about any typical Swedish 'School'. On the contrary, Swedish research is integrated into the international mainstream. The contributions to this book show the breadth of approaches and research questions that form Swedish entrepreneurship research today.

In sum, we would argue that currently Sweden is characterized by: (a) continued attention to quality of empirical work and extensive empirical work, generally leading to high quality research; (b) a multitude of approaches to studying entrepreneurship, many of which are novel, and could be inspiring for others; (c) a great concern for the relevance and practical implications of the research; and (d) a global outlook, quickly integrating research from the US, Europe and elsewhere.

It is our firm belief that Swedish entrepreneurship research can contribute much more. It is highly relevant to showcase contemporary Swedish research on start-up and growth because of the unique position of our research community. We have excellent empirical data, we are well connected to the empirical setting we study leading to relevant research questions, we are global in our outlook and at the same time, part of the mainstream research that we build on our more classical European traditions.

### **Included Chapters**

The broad brush that we have used to paint a picture of Swedish entrepreneurship research and its development, forms a backdrop to the chapters included in this book, to which we now turn. The authors and chapters included represent what we consider modern representatives of

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<sup>2</sup> One could argue that there are so many new and small businesses that turning to policy makers and encouraging them to change policies has greater impact and is more relevant than developing advice and implications for entrepreneurs.

contemporary Swedish entrepreneurship scholars. While firmly rooted in the Swedish tradition, these authors are active and publish in the international research arena.

A central tenant of modern conceptualizations of entrepreneurship is that entrepreneurial opportunities can be exploited within many different organizational contexts (Shane & Venkataraman, 2000). For example, an employee who comes up with a new idea may decide to exploit that idea within his or her current employment or may instead choose to strike out and start his or her own business. The antecedents and consequences of organizational mode chosen for commercializing entrepreneurial opportunities are poorly understood. To a large extent, this is because virtually no research has been conducted on the topic, which is a major shortcoming in the field. In his chapter 'New start-up firms among Swedish patent holders', Roger Svensson examines this important issue. Sampling patents, Svensson surveyed the patent holders of all patents granted to individuals and firms with fewer than 1000 employees during a single year. In this chapter, he is able to establish the organizational context in which the invention originates as well as the context in which it is being exploited. Svensson finds a strong relationship between the organizational mode of the invention and that chosen for exploitation. He also finds that exploitation mode has implications for the financial performance of the invention. It appears that performance improves if the inventor is not responsible for the commercialization, suggesting that the skill sets needed for opportunity discovery are likely to differ from those valuable to opportunity exploitation. In sum, the chapter shows the importance of separating opportunity discovery from exploitation in entrepreneurship research.

In his chapter 'Entrepreneurial human capital: A real options perspective', Karl Wennberg starts with one of Svensson's conclusions – the notion that the skills needed for opportunity discovery are likely different from those needed for opportunity exploitation and then focuses on the latter. Wennberg isolates general human capital variables such as education and human capital variables specific to the task of running a business and hypothesizes how they influence entry into and exit from entrepreneurship. Further, real options theory suggests that investment decisions are influenced by the level of uncertainty and the irreversibility of a specific investment. Using this logic, Wennberg suggests that given that a person has discovered an entrepreneurial opportunity, such real option considerations influence if he or she pursues the opportunity and starts a business. Wennberg then moves on to test these hypotheses on a thirteen year long panel of all inhabitants in Sweden. Finding support for the human capital as well as the real options logic, one of the important conclusions to be drawn from this research is that a better understanding of the decision to enter into entrepreneurship can be gained

from simultaneously considering the nature of the individual and the opportunity. Using human capital theory and real options logic, Wennberg develops a clever way of jointly studying the two using secondary data.

In Sweden and elsewhere, there is a strong interest in promoting the commercialization of university knowledge, using the start-up of knowledge-intensive firms as a vehicle. Students and faculty are encouraged to start their own businesses. Extensive support schemes have been put in place specifically targeting these kinds of businesses. The chapter 'New ventures' entry strategies: A comparison of academic and non-academic business start-ups' by Roininen and Ylinenpää, uses six in-depth case studies to ask the question if start-up and early growth processes differ between businesses originating from universities started by students or faculty, and businesses started outside of this environment. The answer to the question is an unconditional yes. Roininen and Ylinenpää find similarities within each set of firms and differences between the two sets. The university spin-offs are built around new knowledge and need to create a market for their products where none existed. This requires extensive resources and networks. The firms started outside of this environment originate in the perception of a market gap that needs to be filled, leading to faster and less resource demanding exploitation strategies. An important contribution of this chapter is the contextualization of the start-up process, which leads to insights about how different they may be. There are substantial policy implications of this chapter, in particular, regarding how university spin-offs could be supported.

Like Wennberg's chapter, the chapter 'How human capital affects self-employment among the science and technology labor force' by Johan Wiklund, Frederic Delmar and Karin Hellerstedt, utilizes a large longitudinal data set and human capital theory. Like Roininen and Ylinenpää's chapter, it deals with knowledge-intensive entrepreneurship. Viewing the entry into self-employment as an occupational choice, these authors analyze the propensity of the highly educated science and technology labor force to switch to self-employment. They find that the opportunity cost of self-employment works as a strong deterrent. Labor market experience and current wages work against the probability of becoming self-employed. They conclude that those individuals, with the highest probability of discovering valuable opportunities, may also have the highest opportunity cost for entering self-employment and are less likely to engage in entrepreneurship unless they perceive the value of the opportunity to be substantial.

We noted earlier that modern conceptualizations of entrepreneurship agree that such activities can take place in any organizational context. In the corporate context, the challenges are quite different than in start-ups. While the entrepreneurs of start-ups need to convince customers, suppliers, employees and so on, about the legitimacy of the new organization and over-

come their liabilities of newness, corporate entrepreneurs have to convince superiors that they should invest in their new business concepts. This is not an easy task because new initiatives break with the established ways of operating. Christian Czernich and Ivo Zander, in their chapter 'The framing of new business concepts in established organizations: An exploratory investigation', examine the strategies that corporate entrepreneurs use to receive support for their new initiatives. More specifically, they examine how the corporate entrepreneurs 'frame' new concepts. Examining 49 new business concepts within 18 firms, they find that most corporate entrepreneurs frame new business concepts as means of generating new opportunities rather than avoiding threats and they focus on novelty rather than similarity with previous projects. Interestingly though, they did not find any framing strategy, which was more successful than the other in generating internal support. The authors conclude that corporate entrepreneurs do not frame new business concepts in ways the literature has identified as most successful or effective. Further, the relationship between framing and success appears more complex than assumed.

The psychological approach to entrepreneurship is broadening, extending beyond cognitions into emotions. Not least, there is a growing interest in entrepreneurial passion. In line with these contemporary developments, Landberg, in his chapter 'Refueling or running dry: Entrepreneurs' energetic resources and the start-up process', introduces the concept of energetic resources. This concept is akin to passion and perseverance as energetic resources provides entrepreneurs with the energy to cope with goal disruptive events. Thus, Landberg provides a novel lens through which it is possible to understand why entrepreneurs interrupt or persevere with their start-up attempts. Following closely, four nascent entrepreneurs for one and a half years, Landberg carefully analyzes how they cope with over twenty goal disruptions. A main conclusion is that, whether entrepreneurs replenish or deplete their energetic resources depends on the overall life situations of the entrepreneurs rather than on issues specific to the business.

Research on internationalization has a long and strong tradition in Sweden (cf. above). This research deals almost exclusively with the internationalization of established firms. Svante Andersson's chapter, 'International entrepreneurship and the theory of effectuation', provides a counter-balance to this research with its focus on the so-called 'born globals' i.e., new ventures that are already international from the outset. Andersson uses Sarasvathy's (2001) distinction between causal and effectual logic in decision making to unveil how decision making is conducted in a born global firm. Interviews were conducted with key decision makers over a series of years. The results show that the effectuation dominated in the case studied, i.e., the

firm leveraged contingencies, relied on strategic alliances, and sought to control rather than predict the future.

In the final chapter, we discuss and draw the wider implications of the research presented in this volume as well as Swedish entrepreneurship research in general. We conclude by discussing where the entrepreneurship field is moving and the role of Swedish entrepreneurship research in this development.