



Enterprise and small business

Principles, Practice and Policy

Third Edition

Sara Carter
Dylan Jones-Evans

Enterprise and Small Business

Principles, Practice and Policy

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Edited by

Sara Carter and Dylan Jones-Evans

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Introduction

Sara Carter and Dylan Jones-Evans

1.1 Background

Attitudes towards entrepreneurship have changed considerably in the past 30 years. The days when an entrepreneur would be viewed as a ‘deviant’ individual on the margins of society are long gone. Today, people such as James Dyson, Richard Branson, Steve Jobs, Bill Gates and Mark Zuckerberg are world-renowned for their entrepreneurial prowess and revered as role models that many would wish to emulate.

In the same way that entrepreneurs have become an accepted part of everyday life, the influence of the small firm has also grown considerably. While this has been driven by various factors, such as the decline of large businesses, the development of an ‘enterprise culture’, market fragmentation and technological development, the increasing regard for small firms has been fuelled by a widespread recognition of their crucial economic and social roles. Indeed, new growing sectors, such as social media and networking, have been created and developed by new entrepreneurial businesses – Google, Facebook, Twitter and YouTube, for example – all of which have emerged in recent years to have profound effects on the ways we live and communicate.

Small firms are, perhaps, most valued for their contribution to employment creation. At a time when the global economy is struggling to recover from the worst recession since the 1920s, the role of small firms in creating jobs and wealth cannot be overestimated. While research shows that the ability of an individual small firm to create a large number of jobs is restricted to very few high-growth ‘gazelles’, the sheer number of smaller enterprises ensures their collective contribution to employment generation is substantial. For example, in the European Union, large firms have experienced employment losses in nearly every member state, while employment by small firms has grown considerably. In addition to creating employment, small firms also play a variety of other roles. While the economies of scale in production and distribution enable large firms to make a significant contribution to the economy, many of them could not survive without the existence of small companies, which sell most of the products made by large manufacturers direct as well as providing them with many of the services and supplies they require to run a competitive business. Small firms have also introduced many products and services to the consumer, especially in specialised markets that are too small for larger companies to consider worthwhile. Finally, small

businesses provide an outlet for entrepreneurial individuals, many of whom would have found it almost impossible to work for a large organisation. Therefore, an understanding of both the entrepreneur and the business they lead is of vital importance to those creating the policies that will reinvigorate the world economy. In that respect, we hope this book can make a contribution to the process.

1.2 The purpose of this book

The increased importance of entrepreneurship and the small firm sector has led to considerable growth in interest in entrepreneurs and the companies they establish and grow. As Chapter 2 explains, the study of entrepreneurship originated in the work of eighteenth-century economists such as Richard Cantillon, but the field has grown considerably during the past 30 years to encompass disciplines as varied as sociology, psychology, management studies and organisational studies. Indeed, the chapters within this book draw on various approaches to explain broad issues relating to the enterprise environment, entrepreneurial processes and individuals, as well as small business management and growth. The field of entrepreneurship and small business studies has always been diverse, and this book is intended to both reflect this diversity and present an overview of each of the key themes relating to enterprise and small businesses.

Contemporary interest in entrepreneurship essentially dates from the 1970s and 1980s, when a number of critical events saw both a loss of confidence in large-scale industry and growing popular and governmental interest in small businesses. Even before this period, however, there had been research analysing the small firms sector from historical, geographical and socio-economic perspectives. What has changed in recent years is both the volume of research undertaken and its direct role in influencing national economic policy. Accompanying these changes has been a shift in emphasis away from a focus upon small firms and towards entrepreneurship, plus the emergence of entrepreneurship as a subject domain with its own distinctive approaches, paradigms and methodologies.

The domain of entrepreneurship may be one of the newest management subjects, but it is fast maturing. Scholars (Wiklund, Davidsson, Audretsch and Karlsson, 2011: 1) described the entrepreneurship domain as:

one of the most vital, dynamic, and relevant in management, economics, regional science, and other social sciences. The Entrepreneurship Division of the Academy of Management increased its membership by 230 per cent – more than any other established division – and with over 2,700 members, it now ranks among the largest in the Academy of Management. Entrepreneurship research has gained considerable prominence in leading disciplinary and mainstream management journals. As a case in point, the best-cited – by far – article of the decade in the *Academy of Management Review* was the agenda-setting (and debated) piece by Shane and Venkataraman (2000). At the same time, the number of dedicated entrepreneurship journals listed by the Social Science Citation Index increased from one to more than half a dozen, the leading among them achieving impact factors in the same range as highly respected management and social science journals. Most importantly, entrepreneurship research has become more theory driven and coalesced around a central core of themes, issues, methodologies, and debates.

While there have been significant developments in entrepreneurship research, there have been equally important developments with regard to the teaching of entrepreneurship, evidenced by the growing number of university-based entrepreneurship centres. Many of these centres have developed courses in entrepreneurship for undergraduate and postgraduate students, either as an integral element of business and management courses or as degrees in their own right. While the USA was an early leader in entrepreneurship education, business schools in Europe, Asia and Australasia have followed in developing courses in entrepreneurship and small business studies.

To explain the popularity of entrepreneurship education, one has to look at emerging and future graduate employment trends. University graduates are more likely than ever to start their own businesses and work within small- and medium-sized enterprises (SMEs). The current economic conditions will lead increasing numbers of people towards self-employment and business start-up. Even graduates whose first career step is within the corporate sector are increasingly expected to work in project-based corporate venture teams. For new graduates entering the labour market, enterprising skills are essential for career success. Unlike their parents' generation, new graduates are likely to experience a portfolio-based working life, working for several employers combined with periods of self-employment or freelance work. Today's graduate has to adopt a more self-reliant ethos, and this much looser connection with employers means that the option of starting their own business through choice or necessity becomes much greater. Increasingly, universities want their graduates to start their business careers well-prepared and with a full understanding of what entrepreneurship entails.

While the rationale for teaching entrepreneurship at university level is strong, many people remain unconvinced that entrepreneurship can be taught. Entrepreneurship is still popularly viewed as an innate talent and entrepreneurs are seen as being different from the rest of us – born with a gift for it. In fact, entrepreneurship is not the only new subject where its 'teachability' has been questioned. Neither is it unusual for new subjects to be viewed more as an individual's innate gift or talent than a discrete set of knowledge and skills that can be deconstructed into component elements and communicated within the classroom. Each time a new subject domain has been introduced to the university curriculum, the same 'teachability' question has been posed. Some 50 years ago, the new subject introduced into the management curriculum was marketing and the same question was debated at great length. Around 50 years before that, the new subject being debated was psychology and, a century before then, the new subject was medicine. It is worth remembering that, in pre-industrial societies, medicine was regarded as the domain of individuals with an innate gift for healing. Just as we no longer question the legitimacy and professionalisation of these well-established subjects, we no longer question whether or not they can be taught.

The analogy with marketing is especially useful for understanding how entrepreneurship has developed as a subject domain and is emerging as a core element of management education. It was commonly believed 50 years ago that marketing could not be taught. Marketing was regarded merely as an individual's ability to sell and this was seen as an innate skill – confined to those born with the 'gift of the gab'. Nowadays, marketing courses exist in almost every university and college, and there is widespread and unquestioned appreciation of marketing as an essential and multi-dimensional business skill required within all organisations. We no longer question

that marketing and selling can be taught – these subjects have been central to the management education curriculum for decades. Over time, this will also be the case for entrepreneurship.

Entrepreneurship education focuses on the new venture creation process and its constituent elements:

- opportunity identification
- resource acquisition and mobilisation
- new venture start-up
- subsequent business growth.

Of course, some of this may be learned ‘on the job’, but trial and error is time-consuming, expensive and produces poor results.

University entrepreneurship courses tend to use a range of teaching and learning methods to teach entrepreneurship. Formal lectures are complemented by interactive activities, class discussions, tutorials, case studies and interaction with entrepreneurs in the classroom and through field interviews, team exercises, workshops and student placements in high-growth entrepreneurial ventures. This book is designed to accompany such courses by providing students with an overview of the entire subject domain, its history and development and current research debates.

This book addresses the need for a single reference point for the growing number of students undertaking courses in small business and entrepreneurial studies. In determining the themes to be included in this book, guidance was taken from the syllabi of several university and college courses. Many of the initial small business courses taught in universities were designed to encourage and enable students to actually start an enterprise, but courses are now designed to provide a more comprehensive insight into the entrepreneurship process. This reflects both the broad policy imperative to encourage students to start in business for themselves and the future careers of graduates, who are increasingly likely to be employed within the small business sector or in occupations that directly or indirectly support the sector.

As each of the contributions in this volume demonstrates, research undertaken over the past 30 years has led to substantial theoretical and methodological advances. The field is far from exhausted, however. Each chapter within this volume demonstrates the extent – and also the incompleteness – of our understanding of many issues surrounding entrepreneurship and new firms.

This book contains 23 chapters from 38 contributors. Each contributing author was asked to present an overview of a specific body of work and explain how the field had developed over time. Even in such a large volume as this, not all issues can be explained in the depth that may be required. However, we believe that each chapter amply fulfils the criteria of providing a strong starting point for students. One of the advantages of an edited collection of work is the ability to draw on acknowledged subject experts to provide specialised accounts of their specific research areas.

We would like to thank each contributor for not only their chapter contributions but also giving their time and enthusiasm so freely. This book represents a substantial body of knowledge that we hope will provide an excellent reference point for students, researchers and teachers alike.

1.3 Structure of this book

The book is divided into four parts that essentially reflect the four areas that concern the small firm today.

Part 1 introduces the subject of entrepreneurship, the history of entrepreneurship theory and the environment surrounding small business ownership. Part 2 explores the entrepreneurial process. Perhaps the most significant research developments in more recent years have focused on understanding the process entrepreneurs go through, from the very inception of an idea onwards, while a growing body of knowledge is emerging that tries to uncover the experience and consequences of business failure. Part 3 examines some of the main ‘types’ of individuals who start and subsequently manage ventures. Finally, Part 4 of the book examines the various management functions and activities of new and growing firms. As you will see when reading the various chapters, there are often no distinct boundaries between the issues discussed within the various chapters and, where possible, we have linked the relevant sections to other chapters within the book.

As mentioned, Part 1 introduces the subject of entrepreneurship, beginning with Chapter 2, which presents and explains the development of entrepreneurship theory over time, focusing on the way in which the definition of entrepreneurship has varied for different theories and thinkers. Building on this, Chapter 3 examines the role of entrepreneurship in stimulating economic development and growth, at national, regional and local levels. Chapter 4 then examines, in detail, the role of government in supporting and influencing entrepreneurs and the small firm sector. The final chapter in this section looks at the ‘real world of the entrepreneur’, focusing on the influence of context and the external environment on entrepreneurial behaviour.

Part 2 focuses on the process of entrepreneurship within the small firm. One of the defining characteristics of entrepreneurs is their ability to recognise and develop opportunities. This theme is examined in Per Davidsson’s Chapter 6, which introduces the entrepreneurial process and, more specifically, by Dima Dimov in Chapter 7 in his account of entrepreneurial opportunities. The next two chapters look specifically at influences upon the entrepreneur. Chapter 8 presents an introduction to effectuation – one of the most compelling developments in our understanding of the entrepreneurial process – by exploring the key elements of entrepreneurial expertise with a view to identifying, understanding and evaluating particular decisions, actions, strategies and mechanisms. Chapter 9, by Frédéric Delmar and Frédéric C. Witte, explores the various approaches to the psychology of the entrepreneur. Part 2 is concluded by a discussion in Chapter 10 of an issue that is rarely found in textbooks on small businesses – namely, entrepreneurial failure.

Part 3 contains seven chapters, each examining a distinctive type of entrepreneur. The first three chapters in this section explore the influence of ethnicity, gender and family on the experience of entrepreneurship. These are followed by chapters exploring habitual, technical, social and community entrepreneurship – each group demonstrating specific characteristics and influences that differentiate them from other types of owner-managers.

Part 4 focuses on the specific management functions within small businesses. Mainstream management subjects such as strategy, HRM, finance and marketing are

discussed from the specific viewpoint of the small firm and its stakeholders, alongside key areas such as growth, networking and internationalisation – all of which are critical to the development of such businesses.

At the end of each chapter, there is a series of questions designed to provoke classroom-based discussion and reinforce your understanding of the main points, plus links to relevant websites.

PART 1

Entrepreneurship

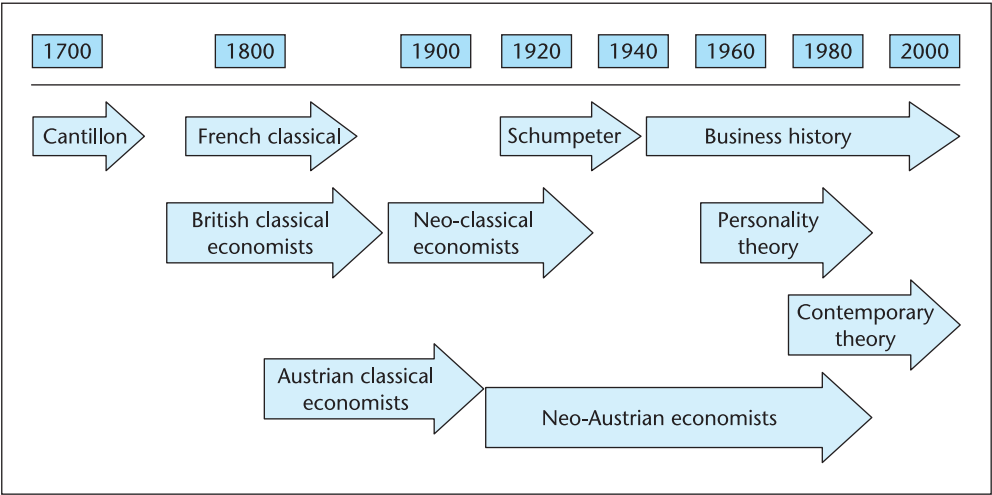
The evolution of entrepreneurship theory

Luke Pittaway

2.1 Introduction

This chapter presents and explains the development of entrepreneurship theory over time. Although the subject of entrepreneurship is often considered to be relatively new, the historical roots can be linked back to the early economic thinkers of the eighteenth century (Bygrave, 1989). The chapter starts by explaining these economic roots, exploring some of the early thinking and the different ways in which entrepreneurship was considered to be important. It then begins to introduce theories from the middle of the twentieth century that moved away from the function of entrepreneurship in the economy to consider more psychological, sociological and behavioural issues. Finally, the chapter explores contemporary theories and thinking and, in this part, maps out the different forms theory has taken (a timeline is presented in Figure 2.1).

Figure 2.1 Timeline of entrepreneurship thought



As you progress through this chapter, it is worth noting the different ways in which entrepreneurship has been defined. The common contemporary view is that entrepreneurship is synonymous with ‘venture creation’ or ‘fast-growing companies’. In historical thinking, however, the way in which entrepreneurship has been defined has varied with different theories and thinkers. These different definitions and views are presented throughout this chapter and the logic underpinning these differences will be highlighted.

2.2 Learning objectives

There are three learning objectives for this chapter:

- 1 to understand the historical nature of the subject of entrepreneurship
- 2 to appreciate the broad sweep of entrepreneurship thought when relating one theory to another
- 3 to gain awareness of the differences in entrepreneurship thought and how this impacts how entrepreneurs are defined and understood.

Key concepts

- entrepreneurship theory
- history of thought
- economic theory

2.3 Economic perspectives

Economic perspectives contribute significantly to the field of entrepreneurship. In most cases when economists seek to understand ‘entrepreneurship’ they are usually interested in the function that entrepreneurship plays in the economic system.

The economic perspectives can be classified in several ways:

- chronologically (Hébert and Link, 1988; Binks and Vale, 1990)
- in schools of thought (Chell, Haworth and Brearley, 1991)
- by the function the economist has given to the entrepreneur within the economic system (Barreto, 1989).

This chapter presents the different economic thinkers in schools of thought. There are several different schools of thought usually highlighted. These include the:

- French classical school
- British classical school
- microeconomics and the neoclassical school
- Austrian and neo-Austrian school
- Schumpeterian school.

2.3.1 French classical school

Most readers will notice that the word ‘entrepreneur’ has a French origin. Hoselitz (1960: 237) suggests that it originated during the Middle Ages when the term entrepreneur

was applied to ‘the man in charge of the great architectural works: castles and fortifications, public buildings, abbeys and cathedrals.’ Remains of this interpretation can be found inscribed on the older public buildings in France. Given the origins of the word, it should not be surprising that the early thinkers were French economists.

In most entrepreneurship texts, Cantillon is recognised as the first to use the term ‘entrepreneurship’ in an economic context (Hébert and Link, 1988; Binks and Vale, 1990). His *Essai Sur la Nature du Commerce en Général* was published in 1732. Cantillon introduced an economic system based on classes of actors – entrepreneurs being one of the three classes. There are ‘landowners’, who are financially independent aristocracy, while ‘hirelings’ and ‘entrepreneurs’ were viewed to be financially dependent on others. Hirelings earned fixed incomes, but entrepreneurs were ‘set up with a capital to conduct their enterprise, or are undertakers of their own labour without capital, and they may be regarded as living off uncertainty’ (Cantillon, 1732/1931: 55). For Cantillon, individuals who purchased a good at a certain price, used that good to produce a product and then sold the product at an uncertain price could be considered ‘entrepreneurs’. Risk and uncertainty play central parts in his theory of the economic system. Successful entrepreneurs were those individuals who made better judgments about changes in the market and who coped with risk and uncertainty better than their counterparts.

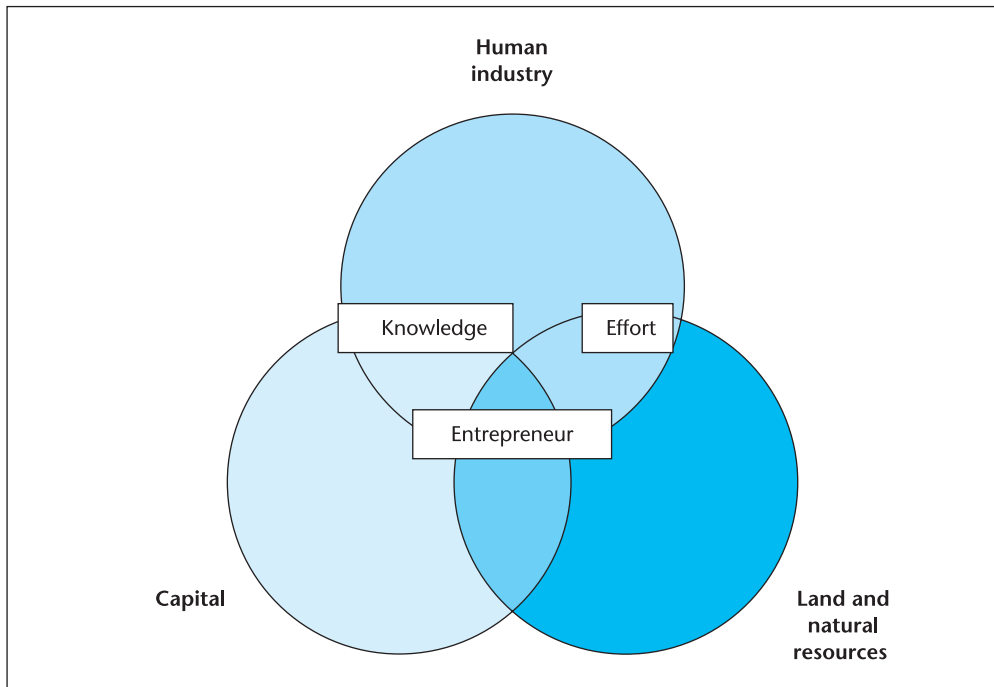
Other French economists following Cantillon took up, considered and reconsidered the role of the entrepreneur in economic systems. Quesnay, for example, took a step away from Cantillon’s ideas about uncertainty and risk by offering up the first mathematical general equilibrium system in the *Tableau Économique* (Kuczynski and Meek, 1972). Turgot made an additional distinction to Cantillon’s ideas by identifying that the ownership of capital and the act of entrepreneurship could be two separate functions of entrepreneurial endeavour. Finally, Say, who became the first professor of economics in Europe (the chair of industrial economy at the Conservatoire des Arts et Métiers, founded in 1819) (Binks and Vale, 1990), further enhanced and built on Cantillon’s ideas in two books published in the 1800s: *A Catechism of Political Economy* (1821) and *A Treatise on Political Economy* (1802). Jean-Baptiste Say, as well as being a professor, was a businessperson, founding a cotton-spinning mill in Auchy, Pas de Calais. Perhaps because of his business experience, Say made the entrepreneur the central point, around which his views about the economic system turned (see Figure 2.2).

Say’s theory of production and distribution was constructed on three major agents of production:

- human industry
- capital – both physical capital, in the form of machines, and money
- land – including other natural resources.

Say recognised that both land and capital were indispensable to production. He, however, argued the ‘key’ to production was human industry (Barreto, 1989). Say then proceeded to make a tri-partite division of human industry into ‘effort, knowledge and the applications of the entrepreneur’ (Koolman, 1971: 271). The entrepreneur was viewed by Say as the coordinator of the system, acting as an intermediary between all

Figure 2.2 Say's theory of production and distribution



of the other agents of production and taking on the uncertainty and risk. The profit the entrepreneur gained was the reward for the risk undertaken. Successful entrepreneurship needed significant qualities. The most important was judgment or the ability to assess the needs of the market and understand how these needs could be met.

2.3.2 British classical school

Unlike the French classical school, the British classical school did not start with a strong appreciation of entrepreneurship (Ricketts, 1987; Chell et al., 1991). The British school is usually considered to include early Scottish, English and Welsh political economists – for example, Adam Smith's (1904) *The Wealth of Nations* and John Stuart Mill's (1909) *Principles of Political Economy*.

Although several of the key authors in this school of thought are likely to have been familiar with the term 'entrepreneur', particularly Ricardo who corresponded with Say, they never used it in their writing or introduced an equivalent Anglo-Saxon version. A number of reasons have been put forward for this. First, Say suggested that there was no direct parallel for the French word 'entrepreneur' in English (although the word 'undertaker' was used it did not have exactly the same meaning, which might explain why this French word is in common use in the English language). Second, the laws in England and France at the time were different. In France, there was a clear distinction between the ownership of capital or land and the ownership of property and business,

whereas in England a capitalist was not only a creditor receiving interest on the capital but also an active partner, sharing in the gains and losses of a business (Tuttle, 1927). Third, it has been suggested that the two groups of theorists used different conceptual apparatus. French political economy was more interested in microeconomic connections and British political economy was more interested in macroeconomic ones (Koolman, 1971). Whatever the reason, the failure of British economic thought to consider the role of the entrepreneur in the economy was unfortunate and may ultimately have led to the neglect of the subject in modern-day economics (Barreto, 1989).

2.3.3 Microeconomics and the neoclassical school

This school of thought includes many economists who use neoclassical approaches to explain how the production and consumption system operates. Notable theorists include Leon Walras, Alfred Marshall, John Bates Clark, Maurice Dobb and Charles Tuttle (Barreto, 1989). Like the British classical school, this group of thinkers has been criticised more for their neglect of the entrepreneurial function than their contributions to understanding entrepreneurship (Kirzner, 1980). This neglect, though, is important to understand as it also helps to explain why entrepreneurship as a subject grew out of and effectively left the economics discipline. A detailed rationale and explanation is provided in Barreto's (1989) book *The Entrepreneur in Micro-economic Theory: Disappearance and explanation*. In this he concludes that there were several reasons for the decline of the entrepreneur in mainstream economic thought.

- 1 he observed that the decline of the entrepreneurial concept coincided with the rise of the theory of the firm
- 2 he suggested that the theory of the firm contained three fundamental assumptions (the production function, rational choice and perfect information) that prevented the introduction of the entrepreneurial concept
- 3 he concluded the desire for consistency in the theoretical structure of the theory of the firm rested on a 'mechanistic' philosophy of the social world that was anathema to the concept of 'human action' implied in entrepreneurial activity.

2.3.4 Austrian and neo-Austrian school

While mainstream economics began to develop theories that tended to exclude entrepreneurship, other economists began to revive the concept. Several such strands of thought have been categorised under the title Austrian or neo-Austrian school (even though, strictly speaking, they should not *all* be so categorised). The theorists in this category regard uncertainty and risk as important features of economic systems that allow entrepreneurs the opportunity to make profit. In this respect, they build on the thinking of the early French political economists.

Much of the Austrian school's ideas can be traced back to the work of von Mangoldt (1855). The first work that makes substantive contributions to understanding entrepreneurship, however, is Knight's (1921) *Risk, Uncertainty and Profit*. Rather than try to develop economic theory that portrays an ideal state of affairs, Knight tried to explain the real market system as it actually operates (Ricketts, 1987) and this sets him

apart from the neoclassical school of the time. Knight argued against much of mainstream economics and explained that supply and demand cannot be in equilibrium because, in reality, other forces change the conditions of the market. In this situation of 'disequilibrium', Knight points out, a market must be in a constant state of uncertainty and entrepreneurship becomes the skilful interpretation of market changes and the bearing of responsibility for the successful or otherwise interpretation of market change. In this theory Knight makes some important distinctions between 'risk' and 'uncertainty' that go beyond the work of some of the earlier thinkers. If, on the one hand, change is calculable and predictable, then it is a 'risk' and a person can predict with a certain degree of probability that it will occur. It can then be insured against or incorporated into the costs of doing business. If, on the other hand, change cannot be predicted, then it is unknown and, therefore, uncertain. He argues that entrepreneurship, rather than being a function, a role or a class of people, as in earlier theories, is in fact a type of decision that requires action in the face of unknown future events.

The other Austrian and neo-Austrian economists (von Mangoldt, 1855; Mises, 1949; Menger, 1950; Kirzner, 1973; Hayek, 1990) take a similar stance. Uncertainty, in their approaches, remains important, as does disequilibrium, and they focus more on the entrepreneurial opportunities created from uncertainties in the market.

Most widely cited of these economists is Kirzner (1973, 1980, 1982, 1990), whose 'entrepreneurs' – or, more precisely, 'entrepreneurial decisions' – are considered to be the driving force behind the market. He goes a step further than Knight by arguing that there is a crucial element in all human action that can be described as 'entrepreneurial'; individuals in the market do not always make logical decisions and these are often based on irrationality or subjective preferences. Again, the personal judgment of entrepreneurs is important, as is uncertainty and risk, but it is not only guided by logical choices and decisions but also the individual's propensity to be alert to opportunities. It is this alertness to opportunity that defines the 'entrepreneurial' element of decisionmaking and, in many ways, this view brings economic thinking into the realm of recognising the role of personal characteristics and particularly cognition.

'Entrepreneurship' is not only the propensity to pursue goals efficiently, when the ends and means of those goals have been identified, but also the drive and alertness required to identify which goals to pursue in the first place. It is the acquisition of market information and knowledge, from market participation, that helps provide this alertness to opportunity, but also an individual capacity to 'envisage' future opportunities as it makes 'correct' perception of the market possible. 'Entrepreneurial' ability is dependent on perceiving future market conditions and setting about a course of action that results in a sequence of decisions directed at achieving the outcome anticipated.

In his early work, which he later modifies, Kirzner (1979: 38, his emphasis) defines this 'pure entrepreneur' as a 'decision-maker whose *entire* role arises out of his alertness to hitherto unnoticed opportunities.' The entrepreneur is, therefore, a decisionmaker who begins without any means other than an ability to predict, 'successfully', changes in market conditions.

Another more recent contribution with a similar stance is the work of Casson (1982), who focuses on such information asymmetries and explores the role that information, information exchange and information markets have on an entrepreneur's alertness to opportunity.

2.3.5 Schumpeterian school

While the role of the entrepreneur in economic systems had been considered in economic thought before the 1920s, many contemporary researchers trace the origins of modern thought in entrepreneurship back to Joseph Schumpeter's work (1934, 1963).

Schumpeter's theories of the economic system and the role of entrepreneurship within it have been widely discussed (MacDonald, 1971; Shionoya, 1992, 1997). His principal contribution can be found in his book *The Theory of Economic Development* (1934) and an article 'The fundamental phenomenon of economic development' (1971).

Schumpeter introduced a concept of entrepreneurship that is quite different from the others discussed so far. His theory is focused on economic development and the role of the entrepreneur in the development process. Schumpeter argues, somewhat contrary to the established thought of the time, that the important question in capitalism is not how it supports existing structures and markets, but how it creates and destroys them. In contemporary thought, 'creative destruction' is now seen as one of the crucial functions of entrepreneurial activity within an economy.

The function of the entrepreneur in this new theory is that of innovating or making 'new combinations' of production possible. The concept of 'new combinations' covers five potential cases:

- the introduction of a new good or a new quality of a good
- the introduction of a new method of production
- the opening of a new market
- the development of a new source of supply or raw materials or half-manufactured goods
- the carrying out of a new organisation of any industry (Kilby, 1971).

In Schumpeter's theory, the new combinations he presents *can* happen in existing businesses but, by their very nature, they typically occur in new firms that begin producing beside older firms. He (Schumpeter, in Kilby, 1971: 54) explains his definition of the concepts by arguing:

These concepts are at once broader and narrower than usual. Broader, because in the first place we call entrepreneurs not only those 'independent' businessmen . . . but all who actually fulfil the function . . . even if they are . . . 'dependent' employees of a company, like managers, members of boards of directors . . . On the other hand, our concept is narrower than the traditional one in that it does not include all heads of firms or managers or industrialists who merely operate an established business, but only those who actually perform that function.

The concept, therefore, includes new businesses that are innovative or forming new combinations of resources (e.g. Facebook) and existing businesses that are doing new innovative things (e.g., Apple). Individuals and businesses are only being 'entrepreneurial', though, when they carry out the new combinations described. They revert back to normal economic activity once their innovative role has been completed.

Schumpeter concludes his theory by pointing out that individuals who are entrepreneurial may need special characteristics and skills. On the one hand, a person who works in a relatively static and unchanging situation can become accustomed to his or

her own abilities and experience. On the other hand, somebody working in a dynamic and ever-changing situation must cope with uncertainties in their environment and must seek to shape these uncertainties. He concludes that these are very different things: 'Carrying out a new plan and acting according to a customary one are things as different as making a road and walking along it' (Schumpeter, in Kilby, 1971: 55).

Schumpeter closes by pointing out that this aspect raises important implications for individual psychology, cognition and behaviour. If there are individual differences in people's ability to cope with ambiguity, uncertainty, change and risk, what drives these differences? Understanding what drives the differences could help explain why some people are more entrepreneurial than others.

2.4 Early psychological and sociological perspectives

With quite different theories, both Kirzner and Schumpeter end by pointing out the potential individual differences that might occur in entrepreneurial capability. Schumpeter does not specify these characteristics, while Kirzner focuses on cognitive skills. Both, however, identify a need for theories to explore the individual aspects of entrepreneurial activity. Schumpeter also takes his argument a step further by suggesting that the best way to understand entrepreneurial activity and behaviour is to place it in its context. In so arguing, he highlights the role of historical analysis and provides the basis for taking an historical approach to understanding entrepreneurship – a rationale that many business historians have applied subsequently when studying the subject (Rose, 2000). As a consequence, from the beginning of the 1960s on, entrepreneurship theorising shifts away from economics to focus more on psychological, social psychological and sociological explanations (although a few economists, such as Kirzner and Casson, continued to focus on the economic role of the entrepreneur). (Chapters 6 and 9, for example, explain more about the entrepreneurial process and the psychological theories.) In the remainder of this chapter, theories will be explained in terms of how they fit into the broad history of entrepreneurship thought. Most of these theories span the period 1960 to the early 1980s.

2.4.1 Personality theory

Personality theory began to make contributions to the subject of entrepreneurship in the early 1960s. It is considered to have started with the work of McClelland (1955), who used the concept of the 'achievement motive' to describe the behaviour of entrepreneurs.

Most early personality theory is described as single-trait theory because theorists sought to identify a single-trait and link it to a greater propensity to be a successful entrepreneur. Further single-trait theories followed, including locus of control (Rotter, 1966) and risk-taking propensity (Brockhaus, 1982). Each of these theories encountered difficulty proving a predictive capability.

Partly as a consequence of the lack of predictive success, theorists by the 1970s had begun to move away from single-trait explanations of the entrepreneurial personality. Instead, they offered multi-trait approaches that presented profiles of entrepreneurial

characteristics they felt could help predict a person's entrepreneurial potential. These profiles often used standardised personality tests (for example, the behavioural event questionnaire).

As time progressed, these studies began to use ever-wider sets of characteristics to measure entrepreneurial potential or success. Studies exploring traits often used varied samples, so somewhat struggled to define the entrepreneur in a common way and found it difficult to justify the criteria they used to define 'entrepreneurial success' (Gartner, 1989a). The predictive value of these personality measures remained elusive and contentious.

By the late 1980s, a series of researchers questioned the validity of these theories from a philosophical and a methodological stance and argued for a more behavioural or social psychological approach (Gartner, 1989a; Chell et al., 1991; Shaver and Scott, 1991).

2.4.2 Psycho-sociological theory

There were a number of theories and approaches that were on the margins of thinking during the dominance of personality theory and the search for the 'correct' constellation of entrepreneurial traits. For want of a better term, these have been categorised here as psycho-sociological. They include two different forms of displacement theory (Shapero 1975; Kets De Vries, 1977) and a social marginality theory (Scase and Goffee, 1980).

The basic premise of these approaches is that entrepreneurs are displaced people or socially marginal people who have been supplanted from their familiar way of life and have somehow been forced into an entrepreneurial way of life due to their circumstances. Displacement includes many categories of people – for example, political refugees, immigrants, ethnic minorities and other marginalised groups in society. In contemporary research, there is evidence in national business formation statistics that supports this idea of certain groups contributing in an above average way to entrepreneurial activity. Indeed, these areas of research in more recent years have become specific subjects in their own right.

In Shapero's (1975) approach, displacement came about through both positive and negative forces, although the majority were perceived to derive from negative forces. The forces were typically external and societal, which were beyond the power of the individual to influence.

Kets De Vries (1977), in contrast, used Freudian psychology and sought out a psychological explanation for why entrepreneurs feel displaced. He viewed displacement as both psychological and sociological, with a rebellion against existing norms and structures being one of a few reasons for psychological displacement. De Vries (1977) linked much of his thinking on entrepreneurial behaviour back to a person's family life and their early family relationships. Although not explicitly linked, it seems likely more recent research about entrepreneurship that draws on ethnicity, gender and family issues in entrepreneurship (as demonstrated in Chapters 11, 12 and 13) may owe its roots to this earlier thought. Displacement and marginalisation as concepts seem to remain embedded in some of these areas of study, although theories about entrepreneurship based *wholly* on these approaches does not seem to factor in much mainstream thought today.

2.4.3 Sociological perspectives

Although the personality perspective mostly dominated thought in entrepreneurship research during the 1970s and early 1980s, there were a number of significant theories being developed at the time that came to play an important role later. The two most notable were sociological work on organisations that applied a population ecology perspective to the birth and death of firms (Aldrich 1979; Aldrich and Zimmer, 1986; Carroll, 1988) and Greiner's (1972) paper in the *Harvard Business Review* that laid the foundations for research on the growth stages of entrepreneurial businesses.

In the former, Aldrich and Carroll explored how the sociological characteristics of particular markets could help explain business success and failure and, in the latter, Greiner put forward a theory that helped explain how entrepreneurial firms might need to evolve and change as they develop and grow.

Alongside these developments in theory there were ongoing shifts in the industrial and political landscape that were to propel entrepreneurship thought into a new phase.

2.5 Contemporary thought

There is no question that theory and research on entrepreneurship exploded from the early 1970s to the present day. Although the roots, as described earlier, remain, the subject has become increasingly diverse and is now a significant discipline in its own right. For example, in 1999 in the USA, Katz (2003) counted over 2200 entrepreneurship courses, in over 1600 schools, 277 endowed professorships, 44 English-language journals and over 100 research centres. Undoubtedly these numbers have grown considerably in the years that have passed since then and there has been substantial growth in the subject outside the USA since the 1990s. There are many causes of this growth.

- 1 There were significant changes during the 1970s and 1980s, for many developed economies, away from an industrial landscape based on a few large (often publically backed) organisations towards an economy based on smaller businesses. This key shift in the industrial landscape has led to a point today where the majority of net new jobs are created by entrepreneurial businesses (the Kauffman Foundation's research takes this further and shows that, between 1980 and 2005, virtually all net new jobs created in the USA were by firms that were five years old or less).
- 2 Alongside this shift in the industrial make-up of advanced economies was a policy shift in government that began to recognise, support and promote entrepreneurship. In the UK, this began with the 1971 Bolton Report and culminated with both Conservative (1979–1997) and Labour (1997–2010) governments introducing policies that supported entrepreneurship and, in the later period, specifically supporting entrepreneurship education.
- 3 As these contextual changes took place, cultural attitudes towards enterprise and entrepreneurs also changed. Particularly from 2000 to 2010, the number of positive media portrayals of entrepreneurs grew (e.g., *Dragon's Den* and *The Apprentice*) and can be contrasted with the somewhat more negative portrayals in the early 1980s (e.g., Del Boy in *Only Fools and Horses*).

All of these contextual changes point towards a general shift in society towards more acceptance of the role of entrepreneurship and the academy has mirrored and sometimes supported this change. As a consequence, when tracking the growth and diversity of entrepreneurship theory from the 1970s onwards, one has to acknowledge the growth of political interest, funding and, of course, the number of courses offered and professors employed to teach them. All these new professors need to be active researchers and publish and, as a consequence, contemporary thinking has expanded exponentially (see Figure 2.3). In the USA, we must also acknowledge the role and growth of philanthropy – successful entrepreneurs often giving back to their colleges and creating endowed professorships, which have also supported the development of the subject.

2.5.1 Small business or entrepreneurship?

The first disjuncture in thought that appears to have occurred in contemporary thinking and created diversity is between those theorists who focus on ‘small businesses’ and others who are more interested in ‘entrepreneurship’. While the distinction between the two is inherently unclear – for example, researchers have difficulty explaining the difference between an entrepreneur and a small business owner (Carland et al., 1984) – there are definitely differences in focus.

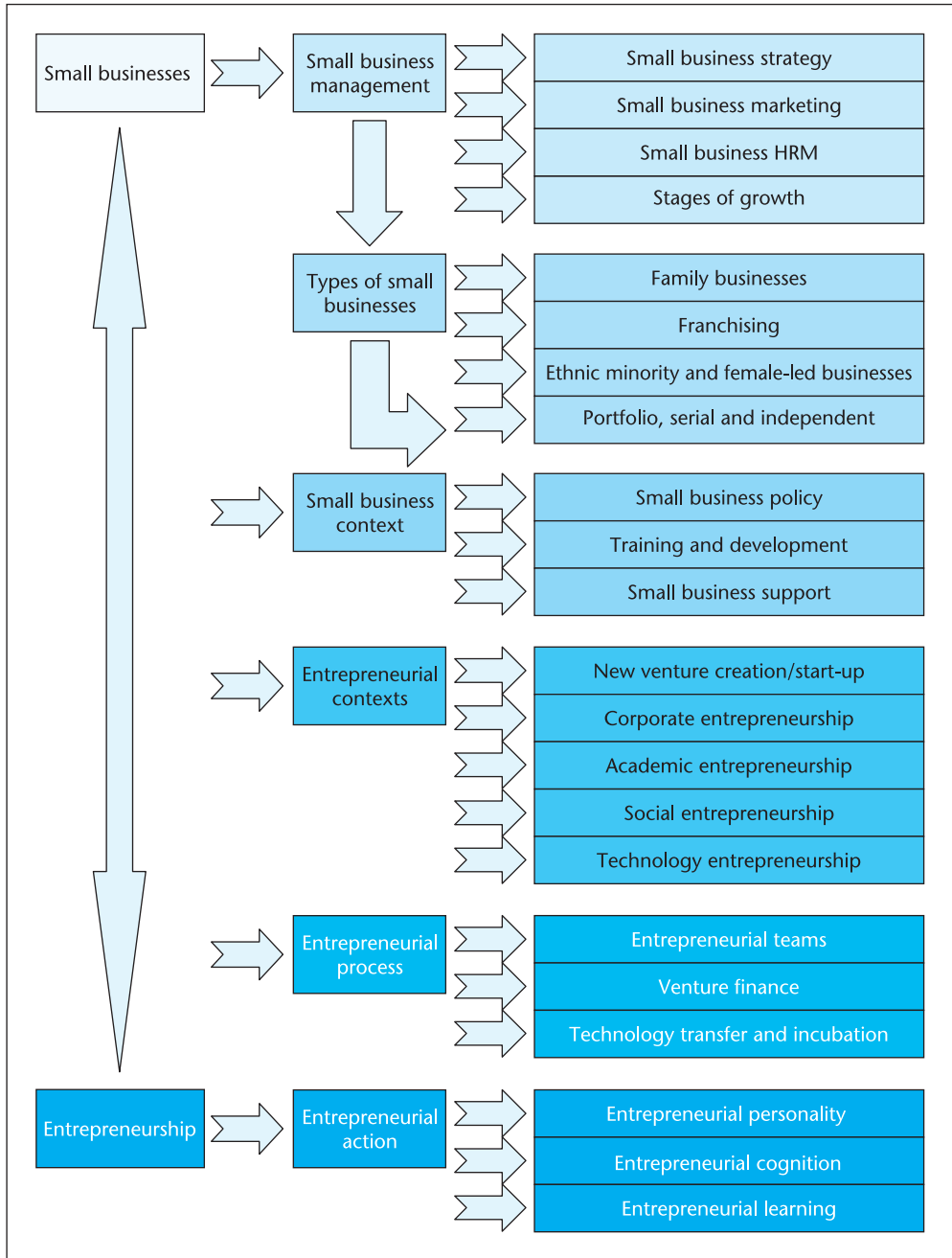
The root cause of this disjuncture can be traced back to Schumpeter’s thoughts on the subject. Small business researchers typically explore routine business experience (i.e., running a small business), while entrepreneurship researchers focus more on contexts where innovative effort is required (i.e., the start-up process). In general, ‘entrepreneurship’ tends to be applied to multiple entrepreneurial contexts – e.g., ‘new venture creation’, ‘high-growth ventures’ or ‘corporate ventures’ – while ‘small business’ focuses on established small firms that may be in none of those categories. Researchers and professors still use the terms interchangeably, which can often lead to confusion.

This split in thought can be charted through the names applied to journals (*International Small Business Journal* versus *Entrepreneurship Theory and Practice*) and the courses offered to students (small business management versus entrepreneurship). There also seems to be some geographic diversity, with Europeans more likely to focus on generic issues, such as small business and ‘enterprise’, while North Americans tend towards a greater focus on entrepreneurship.

In terms of theory, due to the lack of clarity in many studies, there is much overlap in the terminology applied and students can even feel this overlap in undergraduate courses. In general, though, small business researchers tend to focus on the firm as their unit of analysis (as opposed to the individual) or on the policy context supporting small firms. This leads to studies that focus on some key aspect of managerial practice inside a small firm (e.g., marketing, e-commerce or human resource management) or explore key contextual issues that may impact and/or concern small firms (e.g., government policy, training, finance). This category would also include research that builds further on Greiner’s small business growth stages (Scott and Bruce, 1987), which tries to explain the different managerial practices required during different stages of growth.

In more recent years, further diversification has occurred within the small business research field, to cover particular forms of small businesses and their particular needs.

Figure 2.3 Diversification in contemporary thought



This shift was first illustrated by a move towards typologies – in other words, the ways in which researchers have categorised small business owners (e.g., portfolio versus individual or serial business owners).

The best example of this general shift has been a growing and separate focus on family businesses, which has since become a subject in its own right with its own journal (*Family Business Review*), and has a host of specific issues (e.g., family conflict, succession planning, the role of the spouse). Another clear example of this general trend is a growing emphasis on franchising, which crosses several areas of management research, including small business management, and focuses on issues such as franchisee–franchisor relationships, franchise failure rates and the role of a franchise in business growth. Further examples of this diversification in small business research include a growing focus on ethnic minority and immigrant-led small businesses and female-led small businesses.

While small business research and theory has diversified, research that is focused on entrepreneurship has also diversified significantly; the next section explains these developments.

2.5.2 Diversification and expansion

The second shift that appears to have created much diversity in entrepreneurship theory is a dissatisfaction with the dominant personality approach at the end of 1970s and early 1980s. During this period, the dissatisfaction manifested itself in a number of contexts, at slightly different times and in different ways.

It was best articulated in two seminal papers by Gartner (1989a, b), in which he argued for research to stop exploring *who* entrepreneurs were and explore *what* they did. Much of contemporary thought has since been driven by a desire to explain *what* entrepreneurs do and how they do it. In some respects, this period might be described as a paradigm shift, with many researchers directing their efforts in new directions. Although there are still researchers who explore entrepreneurial psychology, they do so from a different philosophical stance and fewer researchers than before focus on the entrepreneurial personality. Theory in entrepreneurship has, consequently, spun off in several directions.

First, a focus on what entrepreneurs do and how they do it enabled researchers to begin to look more at the context of entrepreneurial endeavour, the issues encountered and the behaviours used. Initially, the entrepreneurial context was narrowly defined as purely about ‘new venture creation’ (Gartner, 1989a, b), but, as time has passed, this shift enabled researchers to consider the multiple contexts within which entrepreneurial action occurs.

During the 1990s and 2000s, a plethora of other contexts for entrepreneurial action began to grow from this behavioural stance. For example, it is not unusual for researchers to now consider specific entrepreneurial contexts such as high-tech entrepreneurship, corporate entrepreneurship, social entrepreneurship and academic entrepreneurship. What these approaches hold in common is, at their root, a Schumpeterian assumption that entrepreneurship is an innovative process or ‘the making of the road’ as opposed to ‘the travelling along it’. They do, however, agree that the process can occur in different ways in different contexts. For example, creating a new start-up is

not entirely the same as creating a new business inside an established organisation or spinning out a technology-led venture from a university. They are *all* forms of entrepreneurship, but the processes involved are quite different from those used in managing established businesses.

Second, while there was a shift in theory that enabled researchers to explore what entrepreneurs do and how they do it, this behavioural focus opened up a criticism of entrepreneurial thought inherited from the 1960s, which was its focus on the individual. The assumption was that entrepreneurship is essentially led by individuals acting alone – it was argued that this ‘heroic individual’ myth underlies most entrepreneurship theory (Ogbor, 2000). When taking a behavioural stance, though, researchers discovered there was a large variety of contextual factors and a host of other actors that have an impact on entrepreneurial processes. A second branch of theory consequently blossomed from this acknowledgement and began to open up further research avenues, such as work on entrepreneurial teams, venture capital, business angels, banks, technology transfer offices, incubators and business support professionals. The milieu in which entrepreneurial activity occurs became a focus for study and this development is best illustrated by the foundation of some specific journals supporting such work (e.g., *Venture Capital* and *Entrepreneurship and Regional Development*).

Third, while many researchers shifted towards a more behavioural, organisational or even sociological explanation of entrepreneurial activity, not all researchers were willing to give up trying to understand entrepreneurs and the contribution they make to the entrepreneurial process (Carland, Hoy and Carland, 1988). These theorists split four ways.

- The first group continued to develop, expand and build upon personality theory (Johnson, 1990; Shaver and Scott, 1991) and tried to link the entrepreneurial personality to the context and process in which it is applied.
- The second group, taking a leaf from Kirzner’s work, began to explore the role of cognition and sought to understand the entrepreneur’s capacity to be ‘alert’ to new opportunities (Bird 1988, 1992; Bird and West, 1997). They developed concepts to explain particular entrepreneurial decisions (e.g., opportunity recognition, intentionality and self-efficacy), which helped to explain how decisions to start businesses might occur (Schwartz, Teach and Birch, 2005).
- The third group took a different philosophical stance to entrepreneurial personality (Chell, 1985; Chell, Haworth and Brearley, 1991) and viewed personality as a social construction. In this approach, entrepreneurial behaviour is an archetype created within society to describe how we expect people acting in entrepreneurial ways to behave. Such work opened up more study of different cultural perspectives as they relate to the ways in which entrepreneurship is perceived within different societies and acknowledged that the concept of the ‘individual entrepreneur’ is largely of Anglo-Saxon origin.
- The final group began to develop concepts to understand how entrepreneurs learn and become more effective as they engage in the entrepreneurial process (Gibb, 2002; Cope, 2003, 2005). This work recognises the somewhat deterministic stance of prior theory, which assumes little change in the way entrepreneurs are and how they behave, and takes a more voluntaristic stance, which assumes entrepreneurs

and their activities emerge as a consequence of a process through which they live. This group applies the thinking that ‘entrepreneurs change as they learn and engage and businesses perform better as entrepreneurs learn’.

Finally, as researchers have begun to appreciate the behavioural nuances of entrepreneurship and as the subject has grown, research has begun to focus on entrepreneurship education itself (Pittaway and Cope, 2007). Entrepreneurship education research is now also quite diverse, including many subjects and themes – e.g., teaching methods, higher education policy and, institutional support for student entrepreneurs. The behavioural focus that developed in the mid to late 1980s also led to greater recognition that entrepreneurial activity could be learnt, which provided more justification for exploring how to improve educational practices and this led to a growth in educational research within the subject of entrepreneurship.

Up to the present day, most of the contemporary approaches described here continued to be developed by entrepreneurship researchers and the contemporary academic journals in the field – the undergraduate textbooks and courses all demonstrate this diversity in theory and thought. Such diversity, however, has led to much confusion and debate about the nature of academic inquiry in entrepreneurship. In addition, in more recent years, entrepreneurship research has expanded its domain into public policy and practice via applied research, such as the Global Entrepreneurship Monitor (GEM). The increasing interest of policymakers in understanding how to harness entrepreneurial activity for the good of an economy has led to these debates about theory taking on new significance. Indeed, current changes and shifts in developed countries towards an entrepreneurial economy have also allowed many of the older economic theories (such as Schumpeter’s) to develop a more visible prominence in economic decisionmaking.

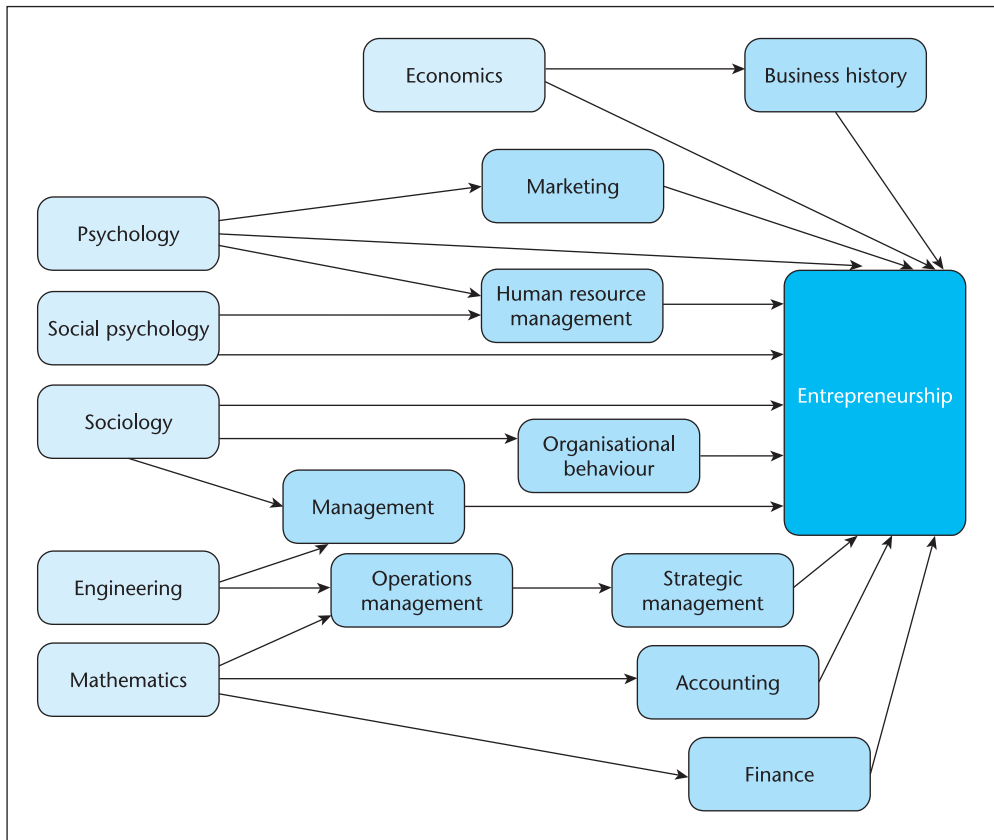
The final part of this chapter explores what researchers think about this diversity and how they suggest it should be addressed.

2.5.3 Inquiry in entrepreneurship research

One of the first considerations about entrepreneurship inquiry that causes concern is its multidisciplinary nature (see Figure 2.4). The description of the subject’s history given in this chapter illustrates that it draws from many different economic theories, different perspectives in psychology, social psychology and sociology and also management theory. This diversity is both an advantage and a disadvantage. It provides for an interesting mix of ideas and topics that can be fascinating and lead to new ideas, but it can also lead to lack of complementarity of theories.

Despite the historical nature of the subject outlined in this chapter and due partly to its growth from the 1980s onwards, many researchers consider it to be a relatively young subject (Davidsson, Low and Wright, 2001). During the 1980s, in particular, it was considered to be dominated by exploratory studies lacking empirical strength and theoretical depth, which led to calls for new methods for analysing data (Bygrave, 1989).

While the subject developed during the 1980s and offered better, more effective empirical research, it remained somewhat underdeveloped in terms of theory (Shane

Figure 2.4 The disciplinary basis of entrepreneurship research

and Venkataraman, 2000). Increases in empirical work followed Bygrave's (1989) call, but methodological sophistication was not necessarily founded on the development of sound theory (Schwartz and Teach, 2000).

During the 1990s, the subject's theoretical foundations are considered to have advanced (Gartner, 2001), but it has been generally accepted that this enhancement of theory has led to further fragmentation, diversity and complexity (Brazeal and Herbert, 1999).

As the volume of work increased, more empirical and conceptual studies have been carried out that are broadly in the domain of entrepreneurship. The expansion of effort from the 1980s onwards has led to an abundance of new theories, the use of many different units of analysis (e.g., the individual, the firm, the network of firms), the use of many different disciplines and some incompatibility in the methods used to conduct research (Chandler and Lyon, 2001).

Different groups of researchers have different solutions to what many see as a common problem of fragmentation in the subject.

- The first group typifies a ‘normal science’ perspective, whereby ‘general theories’ are sought to integrate the subject into a conceptual whole (Shane and Venkataraman, 2000). Views here occupy two trajectories: those seeking expansive theories (Shane and Venkataraman, 2000) that incorporate much thinking into a coherent whole and those seeking to draw the boundaries around the subject more tightly (Low, 2001), thereby excluding certain types of study from the subject. In both views entrepreneurship research involves the representation and analysis of phenomena, such as opportunities and ventures, as they occur via observation.
- The second group prefer a ‘pragmatic science’ perspective, whereby communities of scholars are encouraged to build research agendas around discrete themes within a general ‘political’ definition of entrepreneurship in which many perspectives are located (Gartner, 2001; Ucbasaran, Westhead and Wright, 2001). These views remain embedded within the ‘scientific’ view of knowledge creation, whereby study should build theory and test it empirically.
- The third type can be described as the ‘interpretive’ perspective, whereby differing philosophical traditions underpin theorising, leading to very different forms of knowledge construction that are regarded as equally acceptable (Grant and Perren, 2002; Pittaway, 2005).

In summary, the response seems to be to either consolidate and/or exclude types of research, defining the subject of entrepreneurship more narrowly, or, as an alternative, accept diversity in thinking as a positive outcome for entrepreneurship theory. The different approaches of the groups explained illustrate a community of scholars grappling with a diverse, growing and complicated subject. While it has a long history and deep roots, this is, in some respects, a discipline or subject in the making, so it is a good time to be a student of entrepreneurship.

2.6 Chapter summary

This chapter explored the history of entrepreneurship thought. It started with the early economic theorists and highlighted the different schools of thought and showed how the economic thinkers sought to understand the function of entrepreneurship in the economy, discussing the different theories. In the economic thinking there were some clear differences. The early French economists began the process of considering the subject of entrepreneurs and thought that they played an important function in the economy. British classical and neoclassical economists largely ignored the role of entrepreneurship and the disappearance of the entrepreneur in contemporary economics can be explained by the dominance of their theories in economics today. The Austrians and neo-Austrians took up the challenge from the French and identified key aspects of entrepreneurial activity – e.g., making decisions about the allocation of resources and identifying opportunities when faced with uncertainty. Schumpeter put forward a new interpretation and this view guided much of contemporary thought – i.e., the idea that entrepreneurship is about innovation or ‘doing new things’.

Towards the end of the chapter, early theories in psychology, social psychology and sociology were introduced. It was explained that the economic focus on entrepreneurship

closed with a recommendation to examine individuals. Personality theory became the dominant form from this point, but, in the late 1980s, researchers began to question its value and approach, which led to a diversification in thought from then onwards.

In the final part of the chapter, contemporary thinking about entrepreneurship theory was discussed and several branches were explained, each leading to greater diversity in the subject (see Figure 2.3).

Overall, the chapter shows that thinking in entrepreneurship has a long history. It is rooted in the very beginning of economics as a discipline and early economists considered it to be an important function within the economic system. Over the years, entrepreneurship as a subject has gone through several phases and perhaps gone in and out of fashion as economies have gone through periods of change. From the 1980s onwards, though, the modern subject blossomed and there is now a wide host of topics and themes in the field; you will learn more about some of these in the chapters that follow.

Questions

- 1 What are the main theories in economics that discuss the entrepreneur? In one of the theories identified, explain the role of the entrepreneur in the economy.
- 2 Kirzner's theory of entrepreneurship revolves around the concept of 'alertness to opportunity'. Describe and explain the concept and illustrate the idea as applied to entrepreneurs today.
- 3 Schumpeter's theory of economic development presents the entrepreneur as an innovator. Using examples of contemporary businesses, explain the five forms of innovation and explain why they might be considered entrepreneurial.
- 4 'Contemporary theory in entrepreneurship has become fragmented.' Consider this statement critically, assessing the strengths and weaknesses of this diversity in thinking.

Weblinks

<http://gemconsortium.org>

The Global Entrepreneurship Monitor consortium provides country-by-country analysis of entrepreneurship.

www.kauffman.org/Section.aspx?id=Research_And_Policy

The Kauffman Foundation research and policy site provides recent articles on entrepreneurship and the economy.

www.oecd.org/topic/

From the topics' tab, choose 'Industry and entrepreneurship' and the OECD will provide you with studies on entrepreneurship across the OECD countries.

Entrepreneurship and economic development

Robert Huggins and Nick Williams

3.1 Introduction

This chapter reviews and examines the role of entrepreneurship in stimulating economic development and growth. It highlights the resurgence of interest in entrepreneurship among economic theorists and the increased importance given to entrepreneurship by policymakers with a responsibility for economic development.

Although such development is often considered from a national perspective, the chapter shows how entrepreneurship is in many ways a local or regional phenomenon, with entrepreneurs shaped by the geographic boundaries and context within which they operate. In particular, entrepreneurship forms a part of endogenous modes of economic development, consisting of activities, investment and systems arising and nurtured within a region or locality, as opposed to being attracted from elsewhere. As part of these modes, the capability of entrepreneurs to influence economic development is related to their capacity to access and exploit knowledge and generate innovation. It is shown that the cultural traits of places, especially in terms of social capital, may influence entrepreneurial capacity, with policymakers seeking to develop such traits in order to improve entrepreneurial potential. Alongside policies related to cultural development, policymakers have sought to stimulate entrepreneurship through policies targeted at both the economic and social barriers, plus opportunities mediating entrepreneurial activity.

3.2 Learning objectives

This chapter has four key learning objectives:

- 1 to understand how entrepreneurship facilitates economic development and growth
- 2 to appreciate how entrepreneurship is linked to related factors underpinning economic development
- 3 to consider the role of geography in influencing patterns of entrepreneurship
- 4 to understand the role of government and public policy in supporting and facilitating entrepreneurship.

Key concepts

- entrepreneurship ■ economic development ■ economic growth
- regions and localities ■ endogenous development ■ knowledge spillovers
- social capital ■ public policy

3.3 Entrepreneurship and economic development

Entrepreneurship is increasingly recognised as a crucial element in fostering economic development and growth (Audretsch, Keilbach and Lehmann, 2006; Carree and Thurik, 2006; Romer, 2007). Romer (2007: 128) emphasises the role of entrepreneurship by stating that ‘economic growth occurs whenever people take resources and rearrange them in ways that are valuable . . . [It] springs from better recipes, not just more cooking’. The process of entrepreneurship is widely considered to stimulate competition, drive innovation, create employment, generate positive externalities, increase productivity by introducing technological change and provide a route out of poverty (Audretsch and Thurik, 2001; Acs, 2002, 2006; Powell, 2007).

Across major industrialised economies, levels of entrepreneurial activity are positively correlated with levels of per capita gross domestic product (GDP) and the rate of GDP growth (Acs, 2006; Audretsch and Thurik, 2001; Reynolds et al., 2000, 2001, 2002; OECD, 2003). Government intervention within the field of entrepreneurship, therefore, is inspired by the view that the entrepreneur is one of the solutions to weak economic performance and poor levels of job creation (Holtz-Eakin, 2000; Gilbert, Audretsch and McDougall 2004; Audretsch, Grilo and Thurik 2007; Henrekson, 2007).

In the past, the prevailing view of economists was that large-scale enterprises were the key to economic development, while small firms were viewed as relatively inefficient and less involved in innovative activity (Bridge, O’Neill and Cromie, 2003; Audretsch et al., 2006). The notion that economic growth was possible without the innovations of individual entrepreneurs gained support (Galbraith, 1956; Chandler, 1977), with small firms and entrepreneurship viewed as a luxury rather than a necessity (Audretsch et al., 2006; Volkmann et al., 2009). The route to economic growth was seen as being a combination of large-scale production and collectivist ideologies (Acs and Audretsch, 2001), and stability, continuity and homogeneity became the cornerstones of ‘managed’ economies (Verheul et al., 2001). However, the domination of ‘big-firm capitalism’ has gradually diminished (Storey, 1994) and centrally planned economies – built around economic concentration and scale economies – have begun to wither and ultimately disappear, typified by the fall of the Berlin Wall (Verheul et al., 2001; Audretsch et al., 2006).

Overall, the role and importance of the entrepreneur has witnessed a resurgence in both economic theory and public policymaking (Audretsch, 2003). In the past, entrepreneurship policies were often developed as a temporary solution, to absorb workers displaced by industrial restructuring and downsizing (Storey, 1991), but in more recent years such policies are seen as an essential instrument for encouraging economic growth (Gilbert et al., 2004). However, the notion of the entrepreneur and the contribution of entrepreneurship to economic growth have been interpreted in

widely different ways (Hébert and Link, 1989) and, as such, there exists no generally accepted definition (Verheul et al., 2001). Sautet and Kirzner (2006) argue that the concept of entrepreneurship is notoriously difficult to pin down, with economists and policymakers often entirely overlooking it or gravely misunderstanding it.

Schumpeter (1942) describes economic development as being a process of creative destruction, which combines a positive side, whereby new enterprises are introduced and expanded, with a negative one, whereby enterprises exit or contract. Entrepreneurs are crucial in this process, as they start firms in order to commercialise innovations and, by doing so, challenge established structures and drive the course of creative destruction through innovation (Johansson, 2007). As a consequence of this driving nature, the Schumpeterian entrepreneur is a heroic figure, demonstrating boldness and leadership (Schumpeter, 1934).

Kirzner also emphasises a requirement for human action in entrepreneurship and finds that boldness, imagination and creativity are important aspects (Schumpeter, 1942; Kirzner, 1973, 2009). However, Schumpeter and Kirzner differ in their interpretation of entrepreneurial opportunity, with Kirzner stating that entrepreneurship does not necessarily require innovation (Kirzner, 1973, 2009). While the Schumpeterian entrepreneur causes dramatic changes in markets and industries, the Kirznerian entrepreneur engages in arbitrage by being alert to profit opportunities in existing circumstances (Kirzner, 1973, 2009).

A further key theory is that of Baumol, who states that the structure of pay-offs drives the allocation of entrepreneurial activity between productive, unproductive and destructive entrepreneurship (Baumol, 1990). Where there is an absence of productive entrepreneurship, individuals have found better ways of utilising their time and resources (Greene, Mole and Storey, 2007).

Entrepreneurship has been used to define types of individuals (Say, 1880), types of decisions (Knight, 1921) and forms of behaviour (Schumpeter, 1934). As a discrete concept, entrepreneurship has its origin in the work of Cantillon (1732/1931) and has developed through the neoclassical school's emphasis on equilibrium, which found no place for the entrepreneur as a cause of economic activity (Bridge et al., 2003), to the Austrian school's theoretical challenge that entrepreneurship is crucial to understanding economic growth, leading to Schumpeter's (1934: 74) statement that 'the carrying out of new combinations (of means of production) we call "enterprise"; and the individuals whose function it is to carry them out we call "entrepreneurs"'.

The neoclassical model, which links stocks of capital and labour to growth, dominated growth theory (Solow, 1956; Audretsch, 2007). However, entrepreneurship did not fit into this model because, first, the neoclassical axiom of perfect competition implies that there are no profit opportunities for entrepreneurs left to exploit and, second, models of general equilibrium do not take into account the dynamics of innovating entrepreneurship (Wennekers and Thurik, 1999; Huerta de Soto, 2008).

Entrepreneurs drive the market forward towards efficient outcomes by exploiting profit opportunities and moving economies towards equilibrium (Kirzner, 1973). Entrepreneurs also contribute to the market's process of 'creative destruction', with new innovations replacing old technologies (Schumpeter, 1934; Sobel, Clark and Lee, 2007). Entrepreneurship, therefore, involves the nexus of entrepreneurial opportunities and enterprising individuals, and the ability to identify opportunities as a key part of

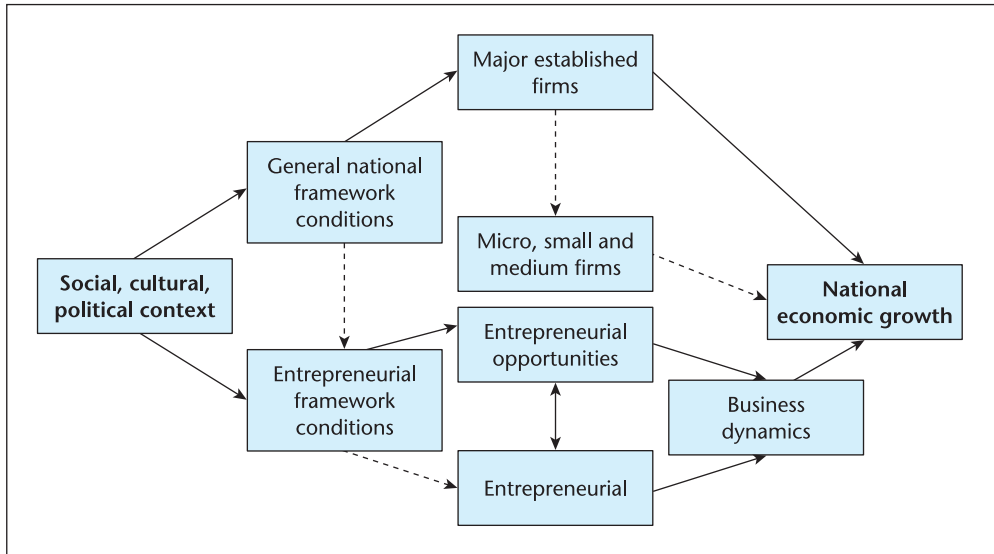
the entrepreneurial process (Shane, 2003; Olson, 2007). Enterprise and entrepreneurship are now commonly viewed as the process of establishing and growing a business (Bridge et al., 2003). However, this can be seen as a narrow view of enterprise and entrepreneurship and disregards Schumpeter's (1934) contention that entrepreneurship is a function of change in society, occurring in a variety of circumstances (Pittaway, 2005). While the creation of a new business is an accurate description of one of the many outcomes of entrepreneurial activity, entrepreneurship encompasses far more than business start-ups and derives from the creative power of the human mind (Sautet and Kirzner, 2006), described as a behavioural characteristic of individuals expressed through innovative attributes, flexibility and adaptability to change (Wennekers and Thurik, 1999; Swedberg, 2000; Bridge et al., 2003).

In general, economic theory holds explicit implications for government intervention to promote entrepreneurship. Schumpeter (1934) views the entrepreneur's role as causing disequilibrium, while Kirzner (1973) emphasises the role of moving the economy towards equilibrium by being alert to new opportunities in existing circumstances. Both views are important in terms of policy intervention as, if government can influence levels and types of entrepreneurship, it is a lever by which to harness economic development. Baumol (1990) proposes that the supply of entrepreneurship is constant, but its distribution across productive, unproductive and destructive activities is affected by institutional arrangements and the social pay-off structure.

Baumol's (1990) theory has further implications for government intervention as policymaking has the possibility of promoting all three activities. A key issue is that policy may promote unproductive activities through incentivised 'rent seeking' based on acquiring government grants, resulting in entrepreneurs moving away from previously productive activities that satisfied consumer desires and led to economic growth. Nevertheless, policies geared towards enhancing entrepreneurship and stimulating enterprise development have become increasingly prevalent across advanced economies (Bridge et al., 2003; Gilbert et al., 2004; Audretsch et al., 2007). Reflecting the raised importance of entrepreneurship over the last two decades, economic development policies have shifted away from trying to attract large manufacturing firms and inward investment and, instead, towards fostering entrepreneurship (Verheul et al., 2001; Kreft and Sobel, 2005; Sobel et al., 2007).

The Global Entrepreneurship Monitor (GEM) aims to explore the links between entrepreneurship and economic growth at national level (Reynolds et al., 2000, 2001, 2002; Bosma and Harding, 2006; Bosma et al., 2008; Harding, 2008; Levie and Autio, 2008; Bosma and Levie, 2009). GEM links the complementary processes through which individuals perceive opportunities and are thereby prompted to create new business activity, which in turn is proposed to impact on economic growth (Bosma et al., 2008; Levie and Autio, 2008). In so doing, the research follows theorists of entrepreneurship in the Austrian tradition, including Schumpeter and Kirzner, as well as other economists who have recognised the role of entrepreneurship in economic development, such as Baumol (Levie and Autio, 2008).

In order to explore these links, GEM has developed a conceptual model that summarises the mechanisms affecting national economies (see Figure 3.1). The model illustrates that the context for entrepreneurship includes a wide range of economic, social and cultural factors and shows national economic growth is a function of

Figure 3.1 The Global Entrepreneurship Monitor (GEM) conceptual model

Source: Derived from Reynolds et al. (2000, Figures 1 and 2)

interrelated activities – those associated with major established firms and those related directly to the entrepreneurial process (Reynolds et al., 2000; Hart, 2003b). As such, the entrepreneurial process accounts for a significant proportion of the differences in economic prosperity between countries (Reynolds et al., 2000; Bridge et al., 2003).

The GEM study has found a statistically significant relationship between entrepreneurial activity and national economic growth, although the strength of the association tends to vary depending on the countries included and the nature of entrepreneurial activity considered (Reynolds et al., 2001). GEM makes a distinction between ‘necessity entrepreneurship’, defined as people who view entrepreneurship as the best option available and not necessarily the preferred option, and ‘opportunity entrepreneurship’, defined as those who engage in entrepreneurship out of choice (Acs, 2006; Bosma et al., 2008; Hechavarria and Reynolds, 2009). The prevalence rate of necessity entrepreneurship is positively associated with national economic growth and is strongest when countries highly dependent on international trade are excluded. While there may be uncertainty regarding causation, it is clear that entrepreneurship is an important component in economic growth (Wennekers and Thurik, 1999; Reynolds et al., 2000, 2001, 2002; Harding, 2008). Indeed, while ‘economic models may not be able to prove that entrepreneurship creates economic growth . . . you won’t get growth without [it]’ (Harding, 2008: 7).

3.4 Regional and local perspectives

With increasing globalisation, it can be argued that subnational spatial levels have become more important than nations in the development of economic growth (Storper,

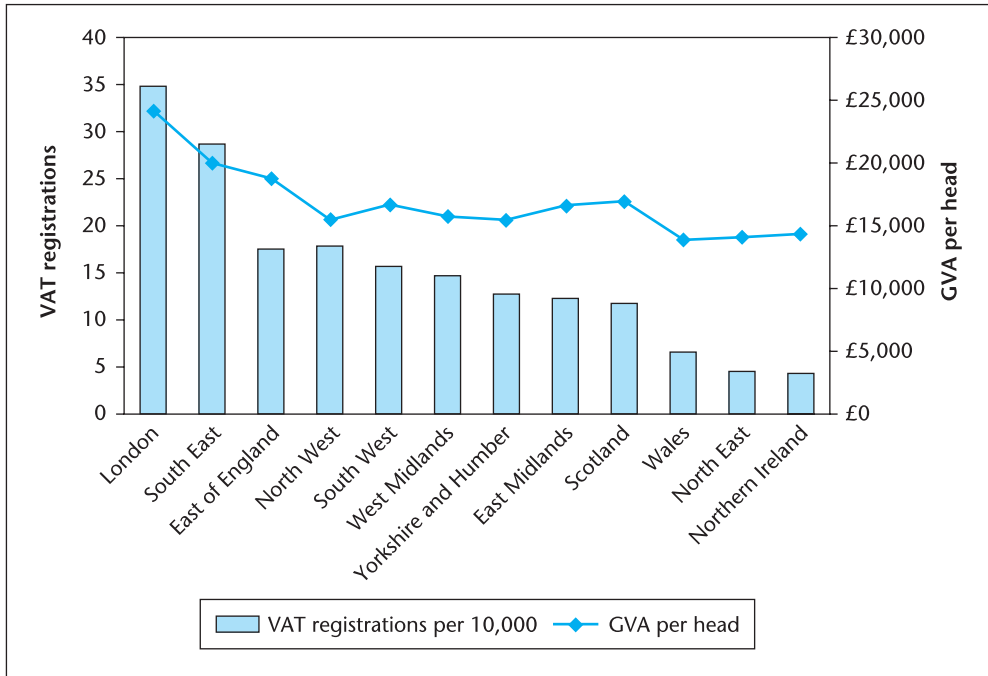
1997; Porter, 2000; Camagni, 2002; Scott and Storper, 2003; Krugman, 2005), particularly in terms of firm entry, competition and learning (Fritsch and Schmude, 2006). The reason some locations gain competitive advantage and grow more than others and some once successful locations have failed to change in step with changes in the economy is a matter of keen debate in economics (Westlund and Bolton, 2003; Kitson, Martin and Tyler, 2004). However, regions and cities are considered important sources of economic development, entrepreneurship and competitive advantage within the increasingly globalised economy (Scott, 1995; Cooke, 1997; Amin, 1999; Werker and Athreye, 2004; Steyaert and Katz, 2004; Malecki, 2007).

The subnational level is also an important dimension for entrepreneurship and, while the nation is often used as the unit of analysis in studies of economic development, it is clear that there are substantial differences in economic performance across regions *within* nations (Porter, 2003), as well as between and within cities (Glaeser et al., 1992; Porter, 1995, 1997; Glaeser, 2007).

When competitiveness of regions is discussed, this refers to the presence of conditions that enable firms to compete in their chosen markets and the value these firms generate being captured within their regions (Begg, 1999; Huggins, 2003). Regional competitiveness, therefore, is considered to consist of the capability of an economy to attract and maintain firms with stable or rising market shares in an activity, while maintaining stable or increasing standards of living for those who participate in it (Storper, 1997). The definition of competitiveness equates with the ‘high road of regional competition’, where regions compete by achieving high levels of innovation, upgrading and growth, rather than the ‘low road of competition’ associated with promoting the lower costs of labour, land or capital (Malecki, 2004). Competitiveness varies across geographic space and regions develop at different rates depending on the drivers of growth (Audretsch and Keilbach, 2004). Regional development concerns the upgrading of the economic, institutional and social base, with entrepreneurship able to unlock wealth as the prime source of development (Amin, 1999). Consequently, entrepreneurship is considered central to regional economic growth (Audretsch and Keilbach, 2004; Malecki, 2007).

At the local level, rates of entrepreneurship often vary greatly (Glaeser, 2007). Localities that foster entrepreneurial dynamism harness economic growth, with a critical mass of businesses providing opportunities for employment, competition and knowledge generation (Porter, 1995; Anderson, 2005). Furthermore, successful cities will attract migrants from elsewhere who are alert to entrepreneurial opportunities or opportunities to sell their labour in a specific market where pay may be advantageous (Anderson, 2005). As Seabright (2004: 111) states, ‘the most innovative people have always been footloose, restlessly seeking out opportunities over time and space’.

A city with a million people potentially offers more than ten times the opportunities for discovery than a town of 100,000 and can attract more people from outside areas (Ikeda, 2008). When this takes place, cities can become ‘incubators of new ideas’, providing opportunities for entrepreneurship to take place and discovering valuable new knowledge (Glaeser, 2002; Ikeda, 2008). Within cities, successful neighbourhoods need at first to ‘feel safe’ in order to harness entrepreneurship (Jacobs, 1961). Neighbourhoods that encourage informal contact at all hours of the day and night harness the self-monitoring ‘eyes on the street’ necessary for feeling safe and the

Figure 3.2 VAT registrations and GVA per head for UK regions

Source: Derived from Huggins and Izushi (2008) and Department for Business, Enterprise and Regulatory Reform (2007b)

emergence of informal networks of trust (Glaeser and Sacerdote, 2000). This informal contact allows for the potential coordination of individuals and assists in harnessing entrepreneurship (Ikeda, 2008).

In order for regions and locations to foster entrepreneurship they must also harness competition, as there is an intrinsic link between entrepreneurship and competition (Kirzner, 1973; Sautet and Kirzner, 2006). Indeed, ‘entrepreneurship and competition are two sides of the same coin’ (Sautet and Kirzner, 2006: 10). Figure 3.2 highlights the correlation between entrepreneurship (expressed as VAT-registered businesses) and gross value added (GVA) per capital in the regions of the UK. The top three-ranked competitive regions all have the highest levels of VAT registrations and levels of GVA, while, conversely, the less competitive, lagging regions have low levels of registrations and low levels of GVA. In competitiveness terms, London, the South East and the East of England are the only regions to have performed above the UK average since 1997 and the disparities between the leading and lagging nations are persistent (Huggins and Thompson, 2010).

In an environment that allows free entry into the market, entrepreneurs can take advantage of new profit opportunities and create new entrepreneurial possibilities that others can act upon (Minniti, 2005). As such, entrepreneurship creates an environment that makes even *more* entrepreneurship possible (Holcombe, 2007). Therefore, in a competitive environment, entrepreneurs will be alert to opportunities and contribute to regional economic growth (Audretsch and Keilbach, 2004).

In competitive situations where locations compete for investment by companies and governments, one place or a few places are chosen while others are not (Malecki, 2004, 2007). Yet, with the emergence of the knowledge economy, such ‘smokestack chasing’ is no longer sufficient (Acs and Szerb, 2007). To compete and grow, places must develop infrastructure, specialised services and a quality of place that facilitates the recruitment of skilled and mobile professionals (Florida, 2002). Developing quality of place is an ongoing dynamic process built on authenticity, diversity and interaction, that generates a ‘buzz’ (Storper and Venables, 2002; Bathelt, Malmberg and Maskell, 2004; Malecki, 2007). This, in turn, attracts creative people to a place, who then stimulate the economy by introducing new ideas, technology and content (Florida, 2002; Acs and Megyesi, 2009). In this sense, creativity is to the twenty-first century what the ability to push a plough was to the eighteenth century (Glaeser, 2005; Acs and Megyesi, 2009).

3.5 Entrepreneurship and endogenous development

Alongside the role of entrepreneurship, economic development is increasingly considered to be based on the complementary roles that knowledge and innovation play within and across economies. The concept of the knowledge-based economy has emerged from an increasing recognition of the requirement for the production, distribution and use of knowledge within modern economies (Harris, 2001). Endogenous growth theory has placed knowledge at the centre of economic development (Romer, 1986; Lucas, 1988; Romer, 1990). Knowledge is viewed as not only the key to the competitiveness of a production unit, i.e. a firm (Nonaka and Takeuchi, 1995), but also regions (Huggins and Izushi, 2007).

Whilst endogenous regional growth can be considered the desired outcome of knowledge-based development and innovation, it is the process of endogenous *development* that underpins the growth trajectories of regions (Maillat, 1998; Garofoli, 2002; Vázquez-Barquero, 2007).

The principles of the endogenous development school of regions are rooted in the role that collective learning and cooperative behaviour plays in the establishment of the innovative milieu – or what some have referred to as ‘technopoles’ (Castells and Hall, 1994), ‘industrial districts’ (Capello, 1999), or ‘clusters’ (Porter, 1998b) – facilitating knowledge flow and new knowledge creation. Implicit is the contention that regional development and growth are best promoted through bottom-up activity focused on the enhancement of local production systems rather than top-down processes of exogenous development focused on seeking to redistribute resources from elsewhere (Maillat, 1998; Garofoli, 2002).

The endogenous school of thought has proved to be of particular relevance in more peripheral and emerging regional environments, which, as a prerequisite for any form of development, need to maximise the effectiveness of particular industrial strengths. Many of these strengths are related to relatively traditional areas of economic activity, requiring transformation, reproduction and innovation if they are to remain competitive and sustainable within the globalising world (Capello, 1999; Lawson and Lorenz, 1999). As Garofoli (2002) argues, endogenous development primarily concerns the capacity to innovate and produce ‘collective intelligence’ in a localised environment,

which explicitly recognises the relevance of diffusing, accumulating, creating and internalising knowledge. In this sense, the region itself acts as an organisational form of coordination, facilitating a sustainable competitive advantage.

Urban settings are increasingly considered to be key territorial units within which endogenous forms of development flourish through their innovative milieu. However, in less-favoured metropolitan settings, regional innovation support policy is seen to be of crucial importance, especially focusing on issues relating to knowledge transfer and functional linkages (Morgan and Nauwelaers, 2003; Cornett, 2009). Asheim and Isaksen (2003) argue that endogenous regional development is unlikely to occur holistically without public intervention to stimulate, for example, cluster creation and network formation. Nauwelaers and Wintjes (2003) classify regional innovation policies according to two core types:

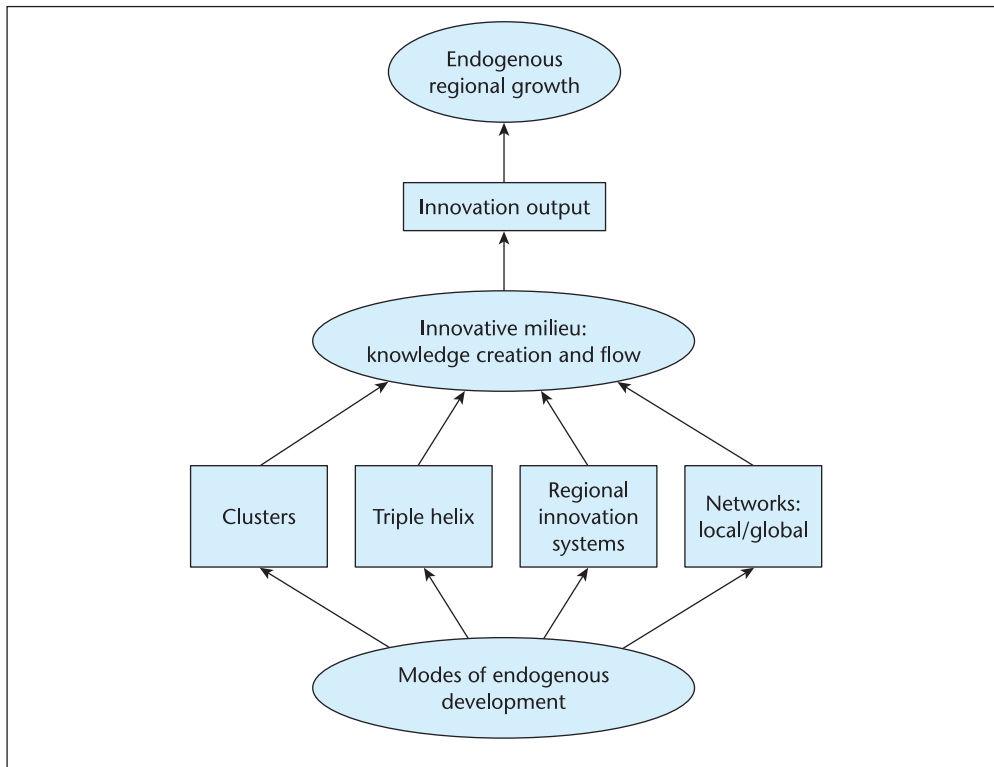
- 1 firm-orientated – principally access to human capital (e.g., business support and advice), financial capital (e.g., risk capital, loans or subsidies) or physical capital (e.g., incubators, research and technology centres)
- 2 system-orientated (regional) – principally network-building and brokering, cluster development, innovation system development, building an innovation culture, cooperation and mobility.

However, they recognise that both types may operate in tandem, with a need for co-ordination across policies (Nauwelaers and Wintjes, 2003).

Figure 3.3 summarises some of the key contemporary modes through which endogenous modes of economic development are conceptualised and policy has subsequently been established. Cooke (2004), for instance, suggests that regional innovation systems consisting of interacting knowledge generation and exploitation subsystems are a vital component of regional economic development and competitiveness, while others have focused on the notion of clusters as the key focus of regional economic theory and policy, with the underlying tenet being that competitiveness is determined by the strength of key concentrations of specific industries (Porter, 1998b).

Clusters can be defined as geographically proximate firms in vertical and horizontal relationships involving a localised enterprise support infrastructure with a shared developmental vision for business growth based on competition and cooperation in a specific market field (Cooke and Huggins, 2003). Clusters are considered as offering a means for creating higher value-added by tapping into and distributing the potential of local strengths as a whole rather than as a series of fragmented firms (Roelandt and den Hertog, 1998; Huggins, 2008).

Similarly, public policy intervention in more recent years has drawn on the triple helix model of economic development, which seeks to promote increased interaction across three broad institutional spheres – namely, government, business/industry and higher education (Etzkowitz and Leydesdorff, 2000; Etzkowitz, 2003). Most prominence has been given to the triple helix regime, which is based on overlapping spheres of state, industry and academia through the establishment of hybrid organisations such as intermediaries, innovation and incubation centres and science parks, allowing each sphere to undertake activities from which they were previously excluded. Such overlapping triple helix forms are manifested by industrial policies that seek to develop an industrial structure based on firm engagement in interorganisational alliances and

Figure 3.3 Modes of endogenous regional development

networks with universities. Furthermore, the triple helix approach has been promoted by its conceptual originators as a policy instrument of relevance to lagging regional environments where, due to the relative lack of knowledge-creating enterprises, universities are, by default, key ‘knowledge actors’.

3.6 Knowledge spillovers and entrepreneurship

Knowledge is often considered to be a public good that frequently ‘spills over’ to other firms and individuals, allowing them to reap where they have not necessarily sown (Acs et al., 2009).

Knowledge spillovers can be defined as the continuum between pure knowledge spillovers, which are uncharged, unintended and not mediated by any market mechanism, and rent spillovers, consisting of externalities that are at least partially paid for (Andersson and Ejermo, 2005). While endogenous growth theory assumes that the spillover process is automatic, it is, in fact, driven by economic agents, i.e. entrepreneurs (Audretsch and Keilbach, 2004; Braunerhjelm et al., 2009). Entrepreneurs convert freely available knowledge into economic knowledge (Braunerhjelm et al., 2009) and,

by doing so, guide the market, driving the selection process, creating a diversity of knowledge and fostering a market process (Schumpeter, 1942; Kirzner, 1973; Sautet and Kirzner, 2006). The start-up of new firms contributes to diversity by commercialising knowledge (Acs and Plummer, 2005) and, the greater the level of entrepreneurship, the greater the diversity and resultant growth (Audretsch and Keilbach, 2004).

Knowledge spillovers may occur through the flow of skills, expertise, technology, R&D and the like across interorganisational and interpersonal networks (Andersson and Karlsson, 2007). The spillover effects of knowledge can take place through time and across space. A key dimension of spillovers is geographic distance, with the general argument being that knowledge spills over more easily locally than at a distance. A study by Jaffe, Trajtenberg and Henderson (1993) discovered that citations to domestic patents were more likely to be domestic in origin, as well as being more likely to stem from the same region and locality as the cited patents. They also found that the localisation of patent citations was significant, even when the existing concentration of related research activity was taken into account. This suggests that local firms are often embedded in knowledge networks (Breschi and Malerba, 2001).

Also, ready access to local public or private research institutes and universities is another route through which knowledge flows. Such knowledge spillovers are especially important in highly knowledge-intensive entrepreneurship focused on knowledge at the frontier of innovation. A study conducted by Audretsch and Feldman (1996) shows that innovative activity tends to cluster geographically more in knowledge-intensive industries where knowledge spillovers play a decisive role. Although such industries tend to exhibit a geographic concentration of production activity, clustering of their innovation activities tends to be even greater. However, knowledge spillovers do also take place internationally, but usually through more selective routes.

Cutting-edge technology constantly changes, resulting in new, better products and processes. Unless local networks keep abreast of different technological options emerging outside, they run the risk of becoming rigid and outdated (Camagni, 1991; Izushi, 1997; Bathelt et al., 2004). In particular, the success of entrepreneurial endeavours – those taking the risk of starting up new ventures and tapping into new areas outside established technologies and markets – will depend on the entrepreneur's ability to access major markets from other localities and regions (Bresnahan et al., 2001). While firms benefit from local knowledge spillovers as an undirected and spontaneous 'buzz', they may also need to consciously build non-local 'pipelines' to tap into knowledge from outside (Bathelt et al., 2004).

Clearly, knowledge spillovers will not be uniform across all firms and places. For instance, smaller firms in a region may benefit from spillovers of university knowledge as they have fewer resources with which to generate their own knowledge (Acs et al., 1994). Also, regional high-tech firms may tend to benefit from university knowledge (Audretsch, Lehmann and Warning, 2005), with there being a significant correlation between the concentration of high-tech industries and university research in high-tech fields within a region (Nagle, 2007; Huggins, Johnston and Steffenson, 2008).

More generally, the study of entrepreneurship has increasingly reflected the general agreement that entrepreneurs and new firms must engage in networks to survive. Also, it is accepted that the socio-economic climate in which entrepreneurs operate will vary

their ability ‘to capture the benefits of economic efficiency’ that networks facilitate (Szarka, 1990; Jack, 2005; Lechner, Dowling and Welpé, 2006; Bowey and Easton, 2007). Research on the networking behaviour of entrepreneurs has tended to focus on personal, social and professional networks as contributing to the success potential of a venture (Birley, 1985; Aldrich and Zimmer, 1986; Huggins, 2000b). Entrepreneurship models of networking have mainly incorporated social network and resource-dependence theories, as well as a resource-based view of the entrepreneur (Ostgaard and Birley, 1996). Network perspectives are seen as contributing to explaining patterns of entrepreneurship where it is the social role and embedded social context that facilitates or inhibits the activities of entrepreneurs (Aldrich and Zimmer, 1986; Huggins, 2000b, 2010). Networks matter to entrepreneurs because they create efficiencies in assembling the resources necessary in the entrepreneurial process (Thorpe et al., 2005).

3.7 Culture, social capital and entrepreneurial places

At the core of entrepreneurship lies culture, which can be defined as a set of shared values, beliefs and expected behaviours (Hayton, George and Zahra, 2002; Hechavarria and Reynolds, 2009; Huggins and Williams, 2009). Culture shapes what individuals perceive as opportunities and, therefore, entrepreneurial alertness is linked to judgment, creativity and interpretation (Hofstede, 1991; Lavoie, 1991; Sautet and Kirzner, 2006; Hechavarria and Reynolds, 2009). Effective institutions and a culture supportive of entrepreneurship make it possible for economic actors to take advantage of perceived opportunities (Sautet and Kirzner, 2006). Places – cities, regions or smaller communities – with an entrepreneurially conducive culture may increase their competitive advantage by attracting investment, skills and talent (Turok, 2004). Places with strong entrepreneurial traditions have a competitive advantage if they are able to perpetuate it over time and generations (Audretsch and Fritsch, 2002; Parker, 2004; Mueller, 2006). Entrepreneurship capital – i.e., the capacity of a society to generate entrepreneurial activity – is built up and has a positive impact on regional economic performance (Audretsch and Keilbach, 2005).

Entrepreneurship can be considered self-reinforcing in nature and can concentrate geographically because of the social environment, as individuals follow societal clues and are influenced by what others have chosen to do (Feldman, 2001; Minniti, 2005). Thus, entrepreneurial activity can create its own feedback cycle, slowly moving society to a more entrepreneurial culture, with a high density of successful new venture creation by local entrepreneurs offering role models people can conform to (Verheul et al., 2001). Places, therefore, can influence entrepreneurial activities via a shared culture or set of formal and informal rules (Werker and Athreye, 2004). In places where entrepreneurship is seen as providing valuable rewards and entrepreneurs are seen as role models, a sustaining entrepreneurial culture can be formed (Saxenian, 1996).

In a competitive environment, entrepreneurs will be alert to opportunities and contribute to economic development (Audretsch and Keilbach, 2004). However, changes in levels of entrepreneurship and contributions to economic development will take time to emerge and, as such, any impacts may only be seen in the long term (Huggins and Johnston, 2009; Huggins and Williams, 2009). Alternatively, places can be