ENTREPRENEURIAL MANAGEMENT IN SMALL FIRMS

IAN CHASTON

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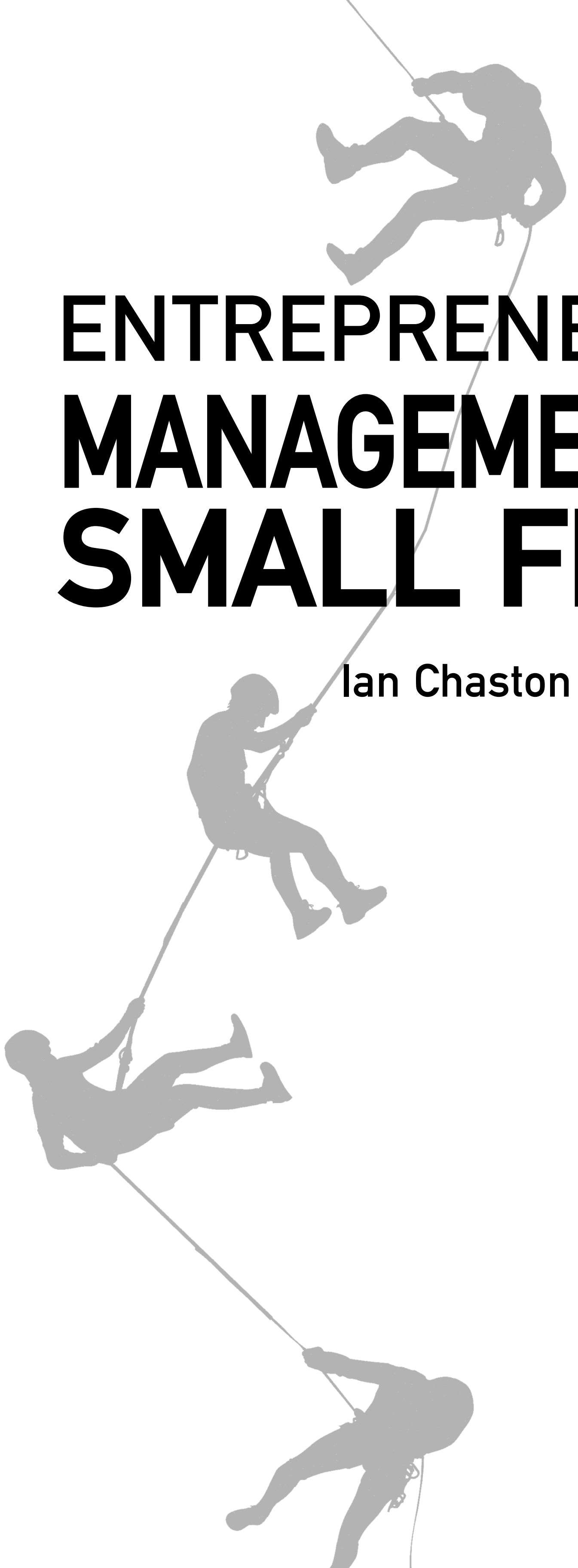

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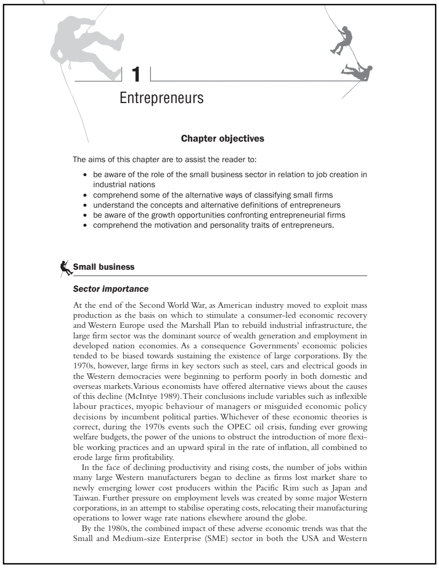

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Entrepreneurs

Chapter objectives

The aims of this chapter are to assist the reader to:

- be aware of the role of the small business sector in relation to job creation in industrial nations
- comprehend some of the alternative ways of classifying small firms
- understand the concepts and alternative definitions of entrepreneurs
- be aware of the growth opportunities confronting entrepreneurial firms
- comprehend the motivation and personality traits of entrepreneurs.

Small business

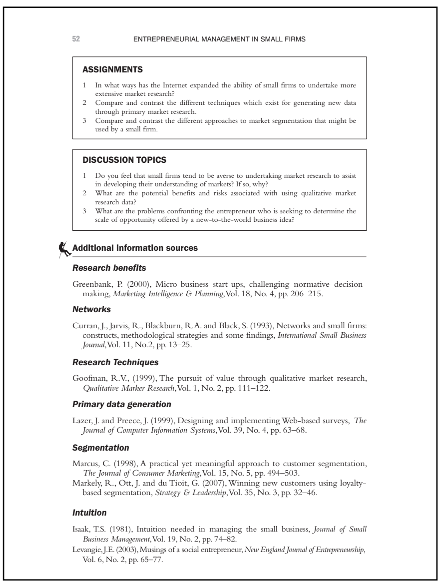
Sector importance

At the end of the Second World War, as American industry moved to exploit mass production as the basis on which to stimulate a consumer-led economic recovery and Western Europe used the Marshall Plan to rebuild industrial infrastructure, the large firm sector was the dominant source of wealth generation and employment in developed nation economies. As a consequence Governments' economic policies tended to be biased towards sustaining the existence of large corporations. By the 1970s, however, large firms in key sectors such as steel, cars and electrical goods in the Western democracies were beginning to perform poorly in both domestic and overseas markets. Various economists have offered alternative views about the causes of this decline (McIntye 1989). Their conclusions include variables such as inflexible labour practices, myopic behaviour of managers or misguided economic policy decisions by incumbent political parties. Whichever of these economic theories is correct, during the 1970s events such the OPEC oil crisis, funding ever growing welfare budgets, the power of the unions to obstruct the introduction of more flexible working practices and an upward spiral in the rate of inflation, all combined to erode large firm profitability.

In the face of declining productivity and rising costs, the number of jobs within many large Western manufacturers began to decline as firms lost market share to newly emerging lower cost producers within the Pacific Rim such as Japan and Taiwan. Further pressure on employment levels was created by some major Western corporations, in an attempt to stabilise operating costs, relocating their manufacturing operations to lower wage rate nations elsewhere around the globe.

By the 1980s, the combined impact of these adverse economic trends was that the Small and Medium-size Enterprise (SME) sector in both the USA and Western

Chapter Objectives: A clear set of bullet pointed learning objectives are provided at the beginning of each chapter.



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ASSIGNMENTS

1 In what ways has the Internet expanded the ability of small firms to undertake more extensive market research?
2 Compare and contrast the different techniques which exist for generating new data through primary market research.
3 Compare and contrast the different approaches to market segmentation that might be used by a small firm.

DISCUSSION TOPICS

1 Do you feel that small firms tend to be averse to undertaking market research to assist in developing their understanding of markets? If so, why?
2 What are the potential benefits and risks associated with using qualitative market research data?
3 What are the problems confronting the entrepreneur who is seeking to determine the scale of opportunity offered by a new-to-the-world business idea?

Additional information sources

Research benefits

Greenbank, P. (2000), Micro-business start-ups, challenging normative decision-making, *Marketing Intelligence & Planning*, Vol. 18, No. 4, pp. 206–215.

Networks

Curran, J., Jarvis, R., Blackburn, R.A. and Black, S. (1993), Networks and small firms: constructs, methodological strategies and some findings, *International Small Business Journal*, Vol. 11, No.2, pp. 13–25.

Research Techniques

Goofman, R.V., (1999), The pursuit of value through qualitative market research, *Qualitative Marker Research*, Vol. 1, No. 2, pp. 111–122.

Primary data generation

Lazer, J. and Preece, J. (1999), Designing and implementing Web-based surveys, *The Journal of Computer Information Systems*, Vol. 39, No. 4, pp. 63–68.

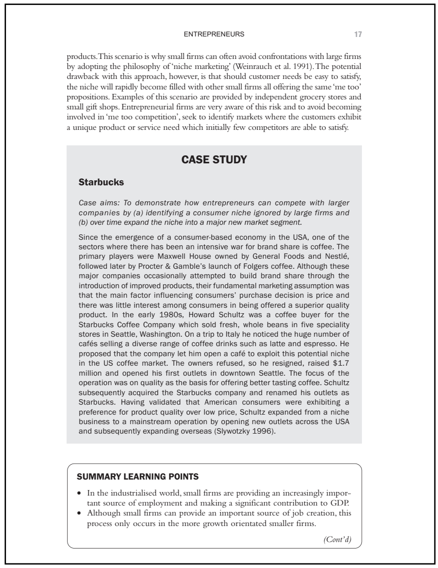
Segmentation

Marcus, C. (1998), A practical yet meaningful approach to customer segmentation, *The Journal of Consumer Marketing*, Vol. 15, No. 5, pp. 494–503.
Markely, R., Ott, J. and du Tioit, G. (2007), Winning new customers using loyalty-based segmentation, *Strategy & Leadership*, Vol. 35, No. 3, pp. 32–46.

Intuition

Isaak, T.S. (1981), Intuition needed in managing the small business, *Journal of Small Business Management*, Vol. 19, No. 2, pp. 74–82.
Levangie, J.E. (2003), Musings of a social entrepreneur, *New England Journal of Entrepreneurship*, Vol. 6, No. 2, pp. 65–77.

Assignments: Suggestions for practical assignments to enable students to put their learning to work.
Discussion Topics: A range of questions provide a starting point for further discussion and debate of issues raised.



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products. This scenario is why small firms can often avoid confrontations with large firms by adopting the philosophy of 'niche marketing' (Weinrauch et al. 1991). The potential drawback with this approach, however, is that should customer needs be easy to satisfy, the niche will rapidly become filled with other small firms all offering the same 'me too' propositions. Examples of this scenario are provided by independent grocery stores and small gift shops. Entrepreneurial firms are very aware of this risk and to avoid becoming involved in 'me too competition', seek to identify markets where the customers exhibit a unique product or service need which initially few competitors are able to satisfy.

CASE STUDY

Starbucks

Case aims: To demonstrate how entrepreneurs can compete with larger companies by (a) identifying a consumer niche ignored by large firms and (b) over time expand the niche into a major new market segment.

Since the emergence of a consumer-based economy in the USA, one of the sectors where there has been an intensive war for brand share is coffee. The primary players were Maxwell House owned by General Foods and Nestlé, followed later by Procter & Gamble's launch of Folgers coffee. Although these major companies occasionally attempted to build brand share through the introduction of improved products, their fundamental marketing assumption was that the main factor influencing consumers' purchase decision is price and there was little interest among consumers in being offered a superior quality product. In the early 1980s, Howard Schultz was a coffee buyer for the Starbucks Coffee Company which sold fresh, whole beans in five speciality stores in Seattle, Washington. On a trip to Italy he noticed the huge number of cafés selling a diverse range of coffee drinks such as latte and espresso. He proposed that the company let him open a café to exploit this potential niche in the US coffee market. The owners refused, so he resigned, raised $1.7 million and opened his first outlets in downtown Seattle. The focus of the operation was on quality as the basis for offering better tasting coffee. Schultz subsequently acquired the Starbucks company and renamed his outlets as Starbucks. Having validated that American consumers were exhibiting a preference for product quality over low price, Schultz expanded from a niche business to a mainstream operation by opening new outlets across the USA and subsequently expanding overseas (Slywotzky 1996).

SUMMARY LEARNING POINTS

- In the industrialised world, small firms are providing an increasingly important source of employment and making a significant contribution to GDP.
- Although small firms can provide an important source of job creation, this process only occurs in the more growth orientated smaller firms.

(Cont'd)

Case Study and Case Aims: Each chapter includes boxed cases, together with case aims that outline what the case illustrates and how.
Summary Learning Points: Useful concluding points reiterate and summarise the main issues raised.

Additional Information Sources: A selection of further readings and websites, arranged according to their topic relevance.
Glossary: A detailed glossary of terms provided at the end of the book.

Companion Website
Be sure to visit the companion website at www.sagepub.co.uk/chaston to find a range of teaching and learning materials.

For instructors:

- An **instructors' manual** offering further information about the chapter coverage, as well as guidance on the chapter assignments and discussion topics.
- Detailed **PowerPoint** slides for each chapter.

For students:

- Extensive **online journal readings** – *over 200* full-text journal articles.
- **Links to relevent websites** are provided and will help with research and assignments.
- An **online glossary** that covers all the relevant terms in the book.

Preface

In the provision of undergraduate and postgraduate programmes, business schools recognise their success is dependent on the provision of courses which can enhance the employability of their students. Until very recently, most students were interested in acquiring the educational qualifications which would increase the probability of obtaining a managerial post in a large private or public sector organisation. Given both the research orientation of academics and the career aspirations of students, syllabus content has remained dominated by theories associated with the effective management of large organisations.

During the 1980s industrial restructuring led to the Small and Medium-size (SME) sector becoming the primary source of new job creation in many Western nation economies. Governments who had traditionally focused their economic policies on assisting large firms, redirected resources into the provision of support programmes to assist existing small firms and to increase the rate of new small business start-ups. This change in public sector policy caused more academics to begin researching the small firm sector. From these studies it became apparent that business practices in many small firms are very different from those previously identified in relation to the large firm sector.

By the 1990s, students entering further and higher education were expressing interest in programmes which contained modules about small business management. This trend could be attributed to factors such as the declining employment opportunities in large firms, observing the impact on their parents' generation of companies 'downsizing' and concerns about working in the anonymous, inflexible environments that can exist in a very large corporation. Many colleges now offer small business courses at certificate, undergraduate or postgraduate level. The standard content of these courses and topic coverage in the supporting textbooks includes issues such as the personal characteristics of owner/managers, small business start-ups, causes of business failure, alternative small firm structures, business planning, financial management, sources of finance, human resource management, business law, organisational change and small business life cycle theory.

Although this growing interest in small business has resulted in an expansion of programme provision, many of these courses still continue to present small business management and entrepreneurship as synonymous concepts. Acceptance of this concept has been accelerated by actions such as Governments and academic researchers using data on the number of business start-ups as a measurement of the level of entrepreneurship within a country. In reality, however, small business is a typology which defines the size of a firm. This is in contrast to entrepreneurship which is the terminology to define a specific form of managerial behaviour. The behavioural trait, which involves a risk taking, innovative, proactive orientation to achieve business growth, can be exhibited by both individuals and entire organisations.

The need to separate the two concepts of small business and entrepreneurship is critical because the vast majority of small firms are run by non-innovative individuals and the businesses have no growth potential. These operations can be considered as non-entrepreneurial. Although any introductory programme about small business management should provide an understanding of the characteristics of small firms, students seeking to deepen their knowledge of small firm management issues and acquire an understanding of how small firms identify and implement a growth strategy, do need to be provided with knowledge about successful entrepreneurial management strategies within the SME sector.

The importance of understanding entrepreneurs and their role in the small firm is critical because the outcome of SME sector growth in developed nations is the generation of new sources of employment and a significant added contribution to a country's gross national product (GNP). Examination of growth strategies reveals most entrepreneurs' success is achieved by building totally new market demand which has yet to be recognised by large firms as a significant source of future opportunity. In the majority of these cases, pre-emption of market opportunity is achieved by an entrepreneur recognising that changing customer needs are creating a significant opportunity to move into a new market sector well ahead of their more ponderous, reactive counterparts in the large firms sector. Somewhat more rarely, an outstanding small firm entrepreneur will achieve above average growth by developing a new product or operational process that is superior to any other offering in the market. The outcome of this latter scenario is the firm will defeat even incumbent, large firm competitors and becomes the new market leader within an industrial sector.

The usual reason why large firms do not exhibit an entrepreneurial orientation is that over the years senior management have determined that within their industrial sector, there are well established conventions that define the products and production processes that will permit the retention of market dominance. This often leads to large firms ignoring the implications of fundamental change in customer needs or the potential impact of new technology. Instead the large firms exhibit a somewhat myopic orientation and continue to utilise very similar managerial philosophies in relation to issues such as selecting customer targets and strategies to sustain future performance. This scenario was exemplified in the late twentieth century by Steve Jobs whose launch of the Apple Personal Computer had a dramatic impact on computer firms such as IBM who had perceived the future as one totally dominated by mainframe computers. Then at the beginning of the twenty-first century, as large companies in the IT and telecommunications sectors sought to determine how technological convergence could be exploited, Steve Jobs again demonstrated his entrepreneurial flair by launching his solution to exploiting the Internet to access music; namely the amazing iPod™ product.

In recent years, the increasingly competitive nature of the job market is causing more students to require syllabus coverage relevant and transferable into the world of work. Although some academics may decry what they perceive is a trend in reducing academic rigour in order to deliver more vocationally orientated courses, business studies students increasingly expect to be provided with evidence that theoretical concepts to which they are being exposed actually are utilised by industry. This issue is critically important in the case of entrepreneurship courses because academics need to appreciate the existence of certain small firm management realities. Firstly, the complex theories originally developed for use in the large firm sector often prove ineffective when transferred into the SME sector. Secondly, owner/managers rarely accept a new business theory without being provided with supporting evidence of applicability to small firms. Fortunately, however, successful owner/managers intuitively seem to know when a theory is relevant or what major modifications they will need to make to a concept before it becomes suitable for adoption within their organisation. Thirdly, many owner/managers, due to their entrepreneurial orientation, tend to prefer immediate action over lengthy reflection. This means that although owner/managers appreciate being shown new planning and decision-making analysis tools, their preference is for techniques (a) simple enough to be understood by themselves and their employees and (b) that do not require massive quantities of expensive market research before they can be applied.

The need to ensure theoretical concepts presented in the text are compatible with real world managerial practice has been a critical issue throughout the development of the materials covered in this text. Chapter 1 provides an introduction to the small firms sector, small firm classification, defines entrepreneurs and examines both the motivation and personality traits of these individuals, entrepreneurship as an evolving theory, examines how small firms grow by exploiting opportunities ahead of large firms and suggests a simple process model for assessing entrepreneurial opportunities.

The destiny of small firms is determined by factors in the external environment over which the owner/manager has little control. There is, however, a tendency for entrepreneurs to be action orientated and a preference to avoid spending a long period of time developing a detailed business plan. Research evidence in relation to the benefits of planning in the small firms sector is somewhat contradictory. Chapter 2 examines these contradictions and presents some alternative perspectives about formal planning which will be encountered amongst entrepreneurs. In addition to an adversity to develop detailed business plans, many owner/managers are somewhat sceptical about using the market research techniques described in standard marketing texts or proposed by market research firms. In part this is because research procedures are often complex or perceived as being too unaffordable. Nevertheless information can be invaluable in gaining a better understanding of issues such as the scale of opportunity offered by changing market conditions, evidence of customer dissatisfaction or the potential impact of a new technology. Hence entrepreneurial owner/managers do need to drop their aversion to market research. Chapter 3 attempts to achieve this aim by presenting a variety of proven, low cost techniques which are capable of fulfilling the research needs of small firms seeking to identify ways of achieving entrepreneurial growth.

Given the often quoted, but probably erroneous, statements about the high failure rate among small firms, Chapter 4 provides a review of the issues which can create obstacles in both the creation and ongoing operations of small firms. Coverage is provided on key influencing factors such as the effective management of cash flow and succession planning. There is also consideration of the sources of support available to the small firm and the degree to which such inputs are perceived as beneficial by owner/managers.

Few markets contain customers who exhibit entirely homogeneous product needs. This means small firms need to assess the nature of their external business environments when seeking to identify new opportunities. Hence Chapter 5 covers the processes associated with gaining an understanding of how key external variables can support or obstruct the implementation of a successful growth strategy. Some marketing purists feel it should only be customer need which should determine a firm's strategy. Available evidence suggests, however, that success is more probable when small firms develop and exploit an internal competence which is superior to that of their competitors. Chapter 6 presents the concept of competence assessment, the resource-based view of the firm and how identified internal strengths or weaknesses can influence development of a successful business plan.

As stated above, few markets contain customers who exhibit entirely homogeneous product needs. Having assessed the external and internal environments in which the small firm is operating and determined the degree of customer diversity, the small firm is only then in a position to define a growth strategy. Chapter 7 demonstrates how data on the external business climate and internal competencies of the firm can be combined to create an entrepreneurial marketing strategy. In the SME sector, leadership style will dominate company culture and strongly influence business performance. Hence this chapter also covers the critical issue of ensuring the selected strategy is compatible with leadership and culture which exists within the small firm.

Entrance into a new market or exploiting changing customer needs often demands a revision in the small firm's current products or internal processes. Chapter 8 examines the managerial processes associated with identifying and implementing an effective innovation plan. Building awareness in a new market is an important objective, but small firms often lack the resources to invest in large scale promotion campaigns. Chapter 9 reviews the various options that exist which permit the delivery of cost effective promotional campaigns. Among small firms there is a tendency to believe the only critical issue when determining their pricing policy is the degree to which discounts should be offered to customers. Chapter 10 examines a somewhat more sophisticated approach to selecting an optimal pricing strategy. This chapter also reviews how the identification of appropriate distribution channels can sometimes dramatically enhance market performance.

A very large number of small firms are created and managed by families. Hence Chapter 11 examines how certain unique characteristics of family firms will influence the performance of these organisations and how poor succession planning can lead to decline or business failure. Another emerging trend among small firm entrepreneurs is their increasing willingness to apply their skills in assisting disadvantaged communities. Consequently Chapter 11 also provides coverage of social entrepreneurship and examines how this philosophy can be especially effective in assisting disadvantaged peoples in developing nations. The pace of technological change which provided numerous opportunities to challenge incumbent larger organisations in the last century is unlikely to slacken during the twenty-first century. Chapter 12 provides coverage of assessing how certain variables can impact the potential success of a new technology. There is also coverage of the opportunities presented by three major areas of business and social change; namely global warming, healthcare and nanotechnology.

The standard structure of each chapter is to introduce managerial concepts and models supported by 'real world' case materials to demonstrate the practical validity of the ideas about how entrepreneurs can exploit innovation as the basis for implementing successful growth strategies in SME sector organisations. The intended primary readership target for this text are undergraduate and postgraduate students enrolled in a small business management programme who having gained an understanding of the basic principles of small firm management, now wish to expand their knowledge to include exploiting entrepreneurship to achieve significant business growth within a smaller organisation. The materials are also of relevance to individuals from public sector support agencies and owner/managers seeking to enhance their knowledge of how entrepreneurship can provide an effective platform through which to achieve faster business growth in the SME sector.

1 Entrepreneurs

Chapter objectives

The aims of this chapter are to assist the reader to:

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Small business

Sector importance

At the end of the Second World War, as American industry moved to exploit mass production as the basis on which to stimulate a consumer-led economic recovery and Western Europe used the Marshall Plan to rebuild industrial infrastructure, the large firm sector was the dominant source of wealth generation and employment in developed nation economies. As a consequence Governments' economic policies tended to be biased towards sustaining the existence of large corporations. By the 1970s, however, large firms in key sectors such as steel, cars and electrical goods in the Western democracies were beginning to perform poorly in both domestic and overseas markets. Various economists have offered alternative views about the causes of this decline (McIntye 1989). Their conclusions include variables such as inflexible labour practices, myopic behaviour of managers or misguided economic policy decisions by incumbent political parties. Whichever of these economic theories is correct, during the 1970s events such the OPEC oil crisis, funding ever growing welfare budgets, the power of the unions to obstruct the introduction of more flexible working practices and an upward spiral in the rate of inflation, all combined to erode large firm profitability.

In the face of declining productivity and rising costs, the number of jobs within many large Western manufacturers began to decline as firms lost market share to newly emerging lower cost producers within the Pacific Rim such as Japan and Taiwan. Further pressure on employment levels was created by some major Western corporations, in an attempt to stabilise operating costs, relocating their manufacturing operations to lower wage rate nations elsewhere around the globe.

By the 1980s, the combined impact of these adverse economic trends was that the Small and Medium-size Enterprise (SME) sector in both the USA and Western

Europe had become an increasingly important source of employment and a significant contributor to Gross Domestic Product (GDP) (Ayyagari et al. 2007). In the UK, for example, by the end of the twentieth century the small firm sector was providing 55 per cent of all employment and contributing over a quarter of the nation's total GDP. Elsewhere within the European Union (EU), small firms have an even more important economic role, generating over 65 per cent of total employment.

This situation was not just confined to the original member states of the EU. The fall of communism within the former Eastern Bloc countries who subsequently became members of the EU, resulted in small firms playing an important role in compensating for the rising unemployment caused by the closure or privatisation of large, state-owned enterprises. In Poland, for example, with unemployment in the region of 20 per cent of the population, economic recovery has been attributed to the impact of the number of small businesses rising from approximately 1 million in the 1990s, to almost 4.5 million by 2004 (Kornecki 2006).

Job creation

The apparent importance of the SME sector as a source of jobs has not been lost upon politicians in the major industrial nations. Since the 1980s, many Governments have invested heavily in schemes aimed at promoting higher rates of small business creation through actions such as the provision of grants, offering free or subsidised training and creating a vast array of advisory services. Whether these initiatives have achieved the desired outcome of increased creation of long term permanent jobs is, however, a somewhat contentious issue. During the 1980s, for example, the UK Government focused support on persuading young, unemployed people in economically depressed regions of the country to become self-employed. Recent analysis of the impact of these support initiatives indicates that the long term outcome was that they had a negative impact on employment levels. Van Stel and Storey (2004), who undertook this research, suggest that once grant assistance came to an end, those people with limited human capital or financial resources having been 'press ganged into starting a small business', ceased trading and again became unemployed. The researchers contrast this situation with the 1990s, where the UK Government focused their attention on providing support for existing, growth orientated small firms. This change in support emphasis was accompanied by an increased level of job creation in the SME sector.

The view that Governments should focus their job creation efforts on supporting only those small firms with potential for significant business growth is echoed in Cervantes' (1996) review of economic development initiatives in a number of developed economies. He concluded that the most successful schemes in terms of real, long term job creation were those which targeted newer industries by assisting the adoption of new technologies or assisting firms in these sectors to gain access to venture capital.

In those cases where researchers have attempted a closer examination of the claims made by both politicians and certain academics about the job creation capability of the small firms sector, actual data rarely seem to support such claims (Bennett 1994). For example, an analysis of the 245,000 American companies started up in 1985 found that 75 per cent of the employment gains generated by 1988 occurred in those firms that had more than 100 employees at time of launch. Yet this group of firms only represented 1 per cent of the total firms in the sample. Similarly, in the UK an assessment of 560,000 firms which initially started with less than 20 employees, only about 10 per cent showed any evidence of new job creation over time and less than 1 per cent ever grew into enterprises with more than 100 employees.

The issue of the limited capability of small firms to be an important source of new jobs has recently been further validated across a large number of other countries around the world. Using cross-sectional data on the 37 countries participating in the Global Entrepreneurship Monitor (GEM) 2002 study, Wong et al. (2005) compared the different types of entrepreneurial activity as measured using the GEM project's typology of Total Entrepreneurial Activity (TEA) rates – High Growth Potential TEA, Necessity TEA, Opportunity TEA and Overall TEA. Across these different types of entrepreneurship the researchers determined that only firms in the High Growth Potential TEA group had a significant impact on nations' economic growth. This result caused the researchers to conclude that fast growing new entrepreneurial small firms, not new small conventional one person start-up businesses, accounted for most of the new job creation by the SME sector in the majority of nations included in the GEM study.

A further contribution to the job creation debate was made by Van Praag and Versloot (2007) who analysed the results from 87 different studies. They concluded these studies indicate that the question of whether small firms make a significant contribution to increasing the number of new, permanent jobs in a country remains an ambiguous issue. This is because in many cases the number of new jobs created by business start-ups is often accompanied by a very similar reduction in the number of jobs caused by newly established small firms failing to survive for any significant period of time. Where there does seem to be agreement across the various research studies which were reviewed is that new small firms which are very successful and survive, are likely to create more new jobs than older, more established companies in the same industrial sector.

The view that only a select few new small firms will generate new, permanent jobs is echoed in an earlier study by Audretsch (2002 p. 16). This researcher posited that 'those new firms that are successful will grow, whereas those that are not will remain small and may ultimately exit from the industry if operating at a suboptimal scale of output'. In Audretsch's opinion, there is evidence to suggest that the success of a new small firm will to a certain degree be determined by the fact that 'the underlying technological regime influences the process of firm selection and therefore the type of firm with a higher propensity to exit'. In his view one cannot merely examine the situation at a single point in time, but instead need to assess the business case for job creation in relation to the point in the life cycle for each specific industrial sector. In those cases where the industry sector is relatively new and highly innovative, small firms will be a major new source of job creation. During the growth stage of the sector life cycle, large firms will tend to become the innovative force and these organisations will be the primary source of new job creation. In maturity of the life cycle, the large firms will remain the dominant force. However, because the level of innovation within the sector will have fallen, this will be reflected in job creation becoming minimal within the sector.

The other issue about the benefits of economic policies aimed as stimulating job creation in the small firms sector which is frequently ignored by the politicians is the quality of the jobs being created and their per capita contribution to GNP. The Austrian economist, and recognised leading authority in the field of entrepreneurship, Schumpeter (1942) concluded that large firms will usually outperform smaller firms in relation to the commercialisation and successful exploitation of innovation.

Davis et al. (1994) supported this perspective and concluded that with certain exceptions, the available evidence would suggest that on average, large firms offer higher quality employment in terms of wages, fringe benefits, working conditions, opportunities for skill enhancement and overall job security. Their opinion is supported by numerous other studies comparing the earning and working conditions in the large versus the small firm sector. Van Praag and Versloot (2007 p. 376), for example, from their review of SME sector research studies concluded that small firms 'pay their workers lower base wages and offer fewer benefits'. They posit that this situation is not attributed to a desire by owner/managers to exploit their workforce but instead is reflective of the reality that the average productivity of employees is usually found to be much lower than that achieved within equivalent large firm operations in the same industrial sector. The available evidence also suggests that in many cases the owner/manager's personal earnings are somewhat lower than their managerial counterparts in the large firm sector. Certainly this perspective is shared by owner/managers in many Western nations who will confirm that running their business involves long hours in return for an income usually much lower than the average wage paid to those in employment within the same country. Furthermore in the UK, for example, unemployed individuals enrolled in Government schemes to help the unemployed frequently discover the income from self-employment is lower than the money they would have received by remaining in receipt of unemployment benefit.

Analysing small firms

Small firm definitions

In the same way that for much of the twentieth century Governments have traditionally concentrated on economic policies aimed at assisting the large firm sector, the majority of academics have also tended to focus on large organisations when undertaking research and the generation of new management theories. It was only in the 1980s that small firms began to be recognised as a sector of the economy which deserved special attention. The need for this special focus is because small firms operate across very different, highly variable business environments which demand that their owner/managers exhibit somewhat unique managerial skills.

A major problem confronting the early researchers was to define what is a small business (Ayyagari et al. 2007). To minimise sample variance caused by differences in sales, size, production or industrial sector, the solution in the large firms sector is to access detailed information on individual firms. These data are available from a diversity of public and private sector sources. Equivalent data sets rarely exist for SME sector firms. One reason for this situation in the UK, for example, is that unlike limited companies, sole traders and partnerships are not required to file statements of financial performance with any Government body which would then cause them to be accessible to researchers. Hence many researchers, in seeking to identify different types of firm are often forced to rely heavily on whatever public sector statistics are available. In many cases the only statistics available are the number of firms within a country classified in relation to the number of employees within each type of firm (O'Reagan and Ghobdian 2004).

Unfortunately there are significant differences across these statistics both between and within countries in relation to the definition of employee count used to classify a business as a small firm. In the USA, for example, the Federal Government uses the definition that small firms are those organisations with less than 500 employees (Peterson et al. 1996). This contrasts with the American Small Business Administration (SBA) which in determining which firms might qualify for certain types of grant aid, uses the criteria for small manufacturing firms as employing up to 1,500 employees depending upon the industry sector and in the case of service firms, businesses with annual sales not exceeding $23 million. Further variations are then found at State level in the USA. Georgia, for example, defines a small firm as a business with sales less than $500,000 and makes no specification in relation to the number of employees.

Within the EU since 1996, the SME sector has been defined as being constituted of organisations employing less than 250 people. This definition is then disaggregated into '*micro enterprises*' employing up to 9 individuals, '*small businesses*' employing between 10 and 49 individuals and '*medium businesses*' which employ between 50 and 249 staff. Even within the EU, however, confusion is created by the European Commission altering this definition when announcing new support schemes (Anon. 2003). What occurs in this situation is the EU may add other criteria to the definition of number of employees to include variables such as (1) maximum annual sales of €40 million, (2) maximum €27 million on the balance sheet, (3) minimum 75 per cent of the company owned by the management or the business is run by an owner/manager plus their family.

Small firm growth

A complication which has emerged in seeking to understand business practices in the SME sector is that as researchers began to focus on the factors influencing the growth rate of small firms, some realised that the most important factor is often not the size of firm, but the motivation of the owner/manager (Storey and Sykes 1996). Some owner/managers run their business to generate an adequate income, whereas others exploit innovation and change as the basis for achieving significant business growth. These latter firms are usually considered to have adopted an entrepreneurial business orientation.

Within non-entrepreneurial small firms, Storey and Sykes proposed there are two types of business; namely '*lifestyle firms*' and '*operationally constrained businesses*'. The former are operations created to provide their owner/managers with an income sufficient to finance their desired lifestyle. Examples are artists creating a craft business, retirees affording to relocate to a warmer climate by establishing a holiday rentals business and individuals operating a small firm in a way that permits them sufficient freedom to regularly enjoy a hobby such as golf or boating (Morrison and Teixeira 2004).

Most operationally constrained small firms are based in market sectors where it is difficult to be different, supply may exceed demand, competition is intense and market entry by new unskilled people is not uncommon (Hitt et al. 1982). Under these circumstances, profitability tends to be very low and opportunities to generate a scale of profit sufficient to fund business expansion are virtually non-existent. Scenarios of this nature are to be found in most abundance in highly fragmented service industries such as retailing and catering.

Entrepreneurial growth firms can also be subdivided in two types; namely '*sectoral specialists*' and the '*giant killers*'. Most sectoral specialist firms operate in markets also partially served by large firms. What occurs is an owner/manager identifies an emerging need among certain customer segments that currently remains unsatisfied. By exploiting the flexibility and speed of response that is a characteristic of the SME sector, the entrepreneurial small firm is able to establish a strong, highly defendable, market presence long before their counterparts in the large firm sector have even become aware of the new opportunities available through responding to changing customer needs.

Most giant killer propositions are founded by one or more individuals who have identified an opportunity which can be exploited by developing a new technology or introducing a new form of business process. At the outset, some of these entrepreneurs do have expectations that because large firms appear to be ignoring a potentially massive opportunity, their new enterprise will eventually achieve market leadership. In other cases, the new business may be launched without the founder having any idea of the huge potential of the business proposition which they have created. Recent examples of this latter scenario in the IT industry are provided by Dell Computers in the marketing of personal computers (PCs) and Yahoo! and Google™, whose search engines now dominate the Internet industry. In none of these cases did the founders, when first identifying their new business idea, have any expectations about the huge scale of personal wealth that they would eventually enjoy.

It is not always the case that the new entrepreneurial firm will achieve and then retain market leadership. There will be instances where an existing large firm decides to respond to the emerging threat and moves to destroy the new upstart. Another possible outcome in terms of the long term destiny of a rapidly growing entrepreneurial firm is that a large company recognises the huge market potential of the concept, but lacks the internal capabilities to rapidly develop and launch their own competitive offering. The large company may, therefore, decide to acquire the entrepreneurial smaller firm. This latter outcome is demonstrated by YouTube, the on-line video streaming business. Once this firm began to exhibit market success in terms of the number of visitors to their Website, the company was acquired by the market leader search engine, Google™.

CASE STUDY

Large firm retaliation

Case aims: To illustrate that (a) an entrepreneurial idea, as well as involving a new product, can also be about a new business process and (b) lacking adequate financial resources may mean the new business is vulnerable to a counter attack by existing larger firms in the market.

Many successful entrepreneurs would not consider a new invention is their most probable route to success. More typically they tend to be individuals who, having identified an unsatisfied customer need or market problem, concentrate on the creation of a new business model. In the 1980s, the UK entrepreneur Freddy Laker was aware few people in Britain could afford to fly across the Atlantic to the USA. At that time most of the major airlines faced high operating costs because of their strategy of maintaining a huge fleet of aircraft in order to offer travellers a diversity of international and domestic destinations.

Laker's new business model was to establish a low cost airline operation, called Skytrain, using a small number of aircraft, initially only flying on a single route. To further reduce operating costs, he decided to operate a 'walk-on walk-off' operation that did not require the passengers to make an advanced reservation. Instead, seats were sold on a 'first come, first served' basis to potential passengers arriving at the airport. The first route he chose to open for Skytrain was the one with the highest number of travellers; namely London to New York. The savings in operational costs created by his business model were passed along to the customer in the form of ticket prices that undercut companies such as TWA and British Airways.

Before Skytrain even started operations, the major elephants in the airline industry, recognising the financial damage that Laker could inflict on their business, applied pressure on the UK and US authorities to refuse approval for the new airline to operate across the Atlantic. After lengthy legal actions, approval was granted and the first flights began in 1977. The huge success of the business caused Laker to add new routes and buy new aircraft.

The major airlines realised that the company's expansion plan was undercapitalised and that Skytrain was vulnerable to any competition which weakened the firm's cash flow. Hence a number of the major airlines conspired together and agreed to match Laker's prices even though this meant incurring operating losses. Eventually their actions, combined with some poor financial decisions by Laker, forced his business into bankruptcy in 1982. Subsequently Laker brought to court the largest aviation anti-trust case in history.

Entrepreneurs

Defining the entrepreneur

In the early nineteenth century, the French economist J.B. Say defined entrepreneurship (i.e. the practice of the entrepreneur) as a process involving the shifting of economic resources from an area of low productivity into an area of higher productivity and greater yield. One of the first British economists to use the term – J.S. Mill – perceived entrepreneurs as individuals engaged in giving direction, supervising, controlling and risk taking. As most of Mill's identified activities can also be attributed to most managers, he concluded that the key difference was entrepreneurs were prepared to take greater risks.

Another economist, the Austrian Joseph Schumpeter (1934), also concerned himself with the role of the entrepreneur. He perceived entrepreneurship to be a 'meta-economic event' such as the introduction of a new technology which causes a major market change. In the Schumpeterian model of economics, managers in large firms typically continue to use traditional conventional approaches where demand is stable and they remain confident about having an accurate understanding of customer needs. In contrast, Schumpeter posited that entrepreneurship is the process most likely to prevail in those circumstances where the market is in disequilibrium and customers have needs which are not being fulfilled. An example would be the impact of the aeroplane on the world's ocean going, passenger liner industry.

Schumpeter considered the distinguishing attribute of the entrepreneur was not that of risk taking, but the willingness to exploit innovation as a path through which to succeed when competing with existing firms. He proposed that innovation could cover a range of possible alternative actions. These include: (1) developing a new product or service, (2) creating a new production process, (3) identifying new markets, (4) discovering new sources of supply and (5) creating new organisational forms.

Since the Second World War, a somewhat broader view of entrepreneurship and the characteristics which define the entrepreneur has emerged amongst management theorists. Entrepreneurship has been redefined as the process of 'creating something different by devoting the necessary time and effort, assuming the accompanying financial, psychological, and social risks and receiving the resulting rewards of monetary and personal satisfaction' (Hisrich and Peters 1992 p.9). Miller (1983) proposed that the entrepreneurial orientation of a firm is demonstrated by the extent to which top managers take risks, favour change and exploit innovation to achieve a competitive advantage. This definition is echoed by Hills and LaForge (1992) who, on the basis of a review of research published to date, concluded that being a successful entrepreneur requires the presence of certain attributes; namely an ability to create a new organisation which exploits innovation and develops a unique operation that supports business growth.

CASE STUDY

Entrepreneurial philosophy

Case aims: To illustrate (a) the orientation of entrepreneurs towards the creation of new products, (b) the difficulty of gaining acceptance of a new idea among major incumbents within an industrial sector and (c) the need for persistence.

Many successful new small businesses are created because an individual identifies an unsatisfied customer need or an unresolved customer problem. This business philosophy was very apparent even in the early years of the Industrial Revolution. Exemplars are provided by astute inventors such as Abraham Darby (iron smelting), James Hargreaves (the spinning jenny) and Thomas Newcomen (the atmospheric steam engine). A more recent example of this entrepreneurial problem/solution approach to business is provided by the UK inventor Trevor Baylis. He knew that market expansion for portable radios in poorer parts of the world was limited by the costs associated with replacing the radio's batteries. He ignored the conventional view that there was a need for lower cost batteries. Instead he had the idea of creating a clockwork radio. Having been faced with both Marconi and Philips rejecting his concept as completely unfeasible, he decided to establish his own manufacturing operation in South Africa. From this base he successfully introduced the clockwork radio into developing nations across the world.

Entrepreneurial attributes

Despite the extensive writings about how entrepreneurs differ from other individuals in the SME sector, there continues to be a tendency for both politicians and some academics to treat small business and entrepreneurship as synonymous, freely interchangeable terms. In part this is due to entrepreneurship being a more appealing title than small business. Hence both politicians and Universities seeking to publicise their interest in small business tend to refer to their activities as being concerned with supporting entrepreneurship. Acceptance of the two terms being interchangeable has increased due to the Babson/London Business School Global Entrepreneurship

Monitor (GEM) (Sternberg and Wennekers 2005). This project, which seeks to measure the importance of small business across different nations, uses 'the number of people considering starting a small business in the next 12 months' as a measurement of entrepreneurial activity (www.gemconsortium.org).

In contrast, Gartner (1988) argued that entrepreneurship should be considered as a unique managerial process which is defined in terms of innovative behaviour traits allied to a strategic orientation concerning the pursuit of profitability and growth. There have been a number of empirically based efforts to measure the attributes of the entrepreneur in terms of personality traits, attitudes, and management behaviours. For reasons of ease of measurement, the trait-based perspective has dominated and continues to be the most widely utilised. The approach is exemplified by Utsch et al.'s (1999) investigation of the differences between entrepreneurs and managers in East Germany. They observed that entrepreneurs exhibited greater levels of self-efficacy, higher order need, readiness to change, interest in innovation, a Machiavellian attitude (or 'competitive aggression'), and desire for achievement than individuals who are employed as managers.

Gartner has drawn a clear distinction between entrepreneurs and owner/managers in small business. His perspective is supported by Stewart et al. (1998) who found that many small business owners were more comparable to managers in larger firms than to entrepreneurs. These researchers found entrepreneurs achieved higher ratings for variables such as a desire for achievement, risk taking and involvement in innovation. Hyrsky (2000), in a study of small business managers in Europe, North America and Australia, identified work commitment, energy, innovativeness, risk taking, ambition, achievement and egotistic features as dimensions of entrepreneurship. Georgelli et al. (2000) described 'being entrepreneurial' as a willingness to take risks, being innovative, and an ambition to grow. These latter researchers went on to suggest that the core competencies for entrepreneurship are a capacity for changing business processes, the launching of new products or services and a planning capacity. They noted that not all small businesses are equipped with these capabilities, nor are all owner/managers necessarily predisposed towards them.

Covin and Slevin (1988 p. 224) defined an entrepreneurial style in terms of the extent to which 'managers are inclined to take business-related risks (a risk-taking dimension), favour change and innovation (an innovation dimension), and compete aggressively with other firms (a proactiveness dimension).' A non-entrepreneurial style in their terms is characterised as being risk-averse, non-innovative, passive, and reactive. They developed a measure of entrepreneurial style based upon previous theorising and research by Khandwalla (1977) and Miller and Friesen (1982). Their research led to the development of one of the first fully validated tools for empirically measuring entrepreneurial orientation.

Although there is widespread agreement that entrepreneurs engage in innovative activities, one area of ongoing debate within the literature is the degree to which entrepreneurs can also be characterised as risk takers. Brockhaus (1987), for example, confirmed the findings of some other researchers by being unable to identify any statistically significant difference between the risk taking propensity of a group of entrepreneurs and a group of managers working in the large firm sector. In his view many researchers had reached an erroneous conclusion about risk taking either because of reliance on anecdotal information or because they failed to recognise that risk taking is influenced by a multitude of factors. He proposed that these include variables such as the nature of the industry, prevailing economic conditions, the age of the business, the size of the firm and the educational/experience levels of the respondents.

CASE STUDY

Entrepreneurs are not infallible

Case aims: To illustrate that (a) even successful entrepreneurs can make mistakes and (b) repetition of the same entrepreneurial concept in a different market sector may not always be a wise move.

The 'ups and downs' entrepreneurs face over their lifetime does mean they need a certain degree of faith in their skills as innovators. Unfortunately there is a tendency for the media to present successful entrepreneurs as having the 'Midas Touch'. Such adulation may cause the feted individual to possibly rush into new ventures without totally assessing the potential for failure. Some people might attribute this trait to Stelios Haji-Ionnou. This ebullient individual, assisted by being from a wealthy family, was the founder of the UK budget airline, EasyJet. Lionised by regular appearances in television documentaries, he then created EasyGroup as a platform through which to launch a whole range of firms based around the concept of offering lower priced propositions to consumers. Some ideas, like his chain of internet cafes, have been successful. The jury is still out for his cruise ship business. For some other ventures, such as his low-cost cinema idea Easycinema, the curtain has already fallen and the business has been closed.

The importance of entrepreneurs

The issue of entrepreneurship may also be linked to the wider agenda of regional or national economic growth. For example, Kuratko and Hodgetts (1998) noted the importance of new and smaller firms to the United States' economy and in particular of the job creating capability of fast-growing businesses versus lifestyle businesses. The former type of firm, referred to as 'gazelles' in Birch's (1979) terminology, are identified by Kuratko and Hodgetts as being leaders in innovation. They cited evidence of total number of innovations, innovations per employees, and numbers of patents in support of this assertion. Olsen et al. (2000) argued that most employment growth is attributable to the minority of firms that grow quickly. They also noted that business owners' motives for growth are not homogeneous and 'appear to reflect experiential and situational differences'.

Hamal and Prahalad (1996), commenting upon the difference between innovation in the large firms sector versus the outcome associated with entrepreneurial behaviour, proposed that the latter activity will lead to the emergence of a completely new concept. An example of this type of scenario is provided by the impact on the retail sector caused by the launch of the on-line bookseller www.Amazon.com. Hamel and Prahalad used examples of significant change to propose the influence of unsatisfied market needs will frequently result in entrepreneurial firms breaking with convention and exploiting this emerging opportunity through the provision of a new, more innovative, solution. These writers have concluded that major changes in industrial sectors have typically occurred because a company 'has changed the rules of the game'. In their view 'to create the future, a company must (1) change in some fundamental way the rules of engagement, (2) redraw the boundaries between industries and/or (3) create entirely new industries'.

On the basis of such perspectives, Chaston (2000a) proposed an alternative definition for entrepreneurship; namely:

> The behaviour exhibited by an individual and/or organisation which adopts a philosophy of challenging established market conventions during the process of developing new solutions.

This definition provides a simple method to assess whether an observed market innovation can be classified as entrepreneurial. If the observed change is based upon a logical extension of current, well established practices such as those utilised to develop a new improved version of an existing national brand of detergent, then the outcome can be classified as conventional innovation. Whereas, should the change clearly break with convention (e.g. the introduction of washing technology which does not involve the use of water) then the observed outcome can be considered as entrepreneurial.

A useful secondary advantage offered by the proposed definition is that it permits the classification of entrepreneurial versus non-entrepreneurial activities at any level within the organisation (e.g. a new approach to decision-making within a department), between organisations, between industrial sectors and between different countries. Within any of these comparisons, one is testing whether the solution is an extension of existing industry practices or represents a genuine break with convention.

CASE STUDY

The benefit of convention challenging

Case aims: To demonstrate that by challenging conventions an entrepreneur can totally alter the nature of a major industry.

Possibly the most outstanding modern day story of achievement through challenging conventional thinking is provided by one of the world's richest men, Bill Gates. At a time when other members of the computer industry were competing to launch new improved hardware, Bill Gates broke with convention by adopting the view that the future profitability in the IT industry would be owned by whoever achieved dominance in the supply of software. He founded Microsoft which focused on becoming the world standard for personal computer operating systems and applications software. The first breakthrough came when IBM adopted Microsoft's MS:DOS operating system for their next generation of PCs. This contract had the huge benefit that the Microsoft product would automatically gain distribution on a global scale because it would be installed in every IBM PC to be manufactured. The success of the operating system was followed by Microsoft's launch of the Windows suite of word processing, spreadsheet and database packages. At this juncture Microsoft was able to persuade virtually every PC manufacturer to install the Windows product as a standard software system on their respective machines. The outcome is a company which has become the industry standard for many areas of software and consequently enjoys a virtual global monopoly in the software installed on PCs.

The entrepreneurship option

Self-employment traits

Consideration of the option to become self-employed may arise at any point in a person's life, from immediately after leaving college, at an optimal point during their career or as a lifestyle change following retirement (Kane and Spizman 1988). In some sectors of industry such as the pure arts or graphic design, the very limited job opportunities relative to the number of college leavers virtually mandates that most individuals will have no option but to become self-employed. Within the professions such as accountancy and law, it is quite usual for individuals wishing to have greater control over their earnings or lifestyle to resign from a large organisation in order to open their own practice. Some people upon retirement perceive starting their own business as an opportunity to become more immersed in something of great personal interest such as an existing hobby. Others become self-employed because their pension or savings will not cover their living costs.

The growing interest in the creation and successful management of small firms over the last 20 years has caused researchers and management experts to attempt to identify the managerial traits which are exhibited by owner/managers and the entrepreneur (Beugelssdijk and Noordaven 2005). A common aspiration is to identify a universal theory that can be applied to all scenarios. This aim exists despite the fact that an examination of the real world soon reveals owner/managers and entrepreneurs come in numerous 'different shapes and sizes'. Hence caution is advisable when reading certain academic writings or watching television programmes about small business. This is because in many cases the generalisations that are presented are often somewhat removed from reality.

Certain projects concerning the identification of the characteristics exhibited by owner/managers have been undertaken using an adequate, well validated research methodology. Consequently these studies offer useful insights about some of the characteristics exhibited by owner/managers in relation to motivation and behaviour. One extremely large scale study was that undertaken by Professor Schein at the Massachusetts Institute of Technology (MIT) in America (Schein 1996). As an occupational psychologist his aim was to determine whether people exhibit differences in relation to their career preferences and their chosen career paths. Based upon an assessment of values, needs and abilities he evolved a model in which he posits that people can be classified into five career types (or 'anchors'). These are: (1) *technical/functional*, (2) *managerial*, (3) *security and stability*, (4) *autonomy and independence* and (5) *entrepreneurial creativity*. His research indicates that people are most satisfied in their working life if they follow a career path compatible with their dominant career anchor.

In seeking to understand career motivations and career paths in the small business sector, Feldman and Bolino (2000) used the Schein typology to assess which career anchors are evident among the self-employed in the USA. The results indicated that the most dominant career anchor (46 per cent of respondents) was the desire for autonomy and independence. The second most important career anchor (33 per cent of respondents) was the desire for entrepreneurial creativity. Scales used in their study which indicate the attitudes of these two career anchor types are shown in Table 1.1. In terms of job satisfaction and psychological well-being, those anchored by entrepreneurial creativity reported a higher level of overall life satisfaction than individuals seeking autonomy.

Table 1.1 *Dominant career anchors of self-employed persons*

Autonomy

1 The chance to pursue my own lifestyle and not be constrained by rules
2 A career free from organisational restriction
3 A career which permits maximum freedom to choose my own work environment
4 Being able to retain a sense of freedom and autonomy
5 Not constrained by organisations of the business world in general.

Entrepreneurial creativity

1 Able to create or build something that is entirely my idea
2 Using my skills to build a new business
3 I am motivated by the number of ideas which are totally mine
4 To invent or create something of my own is very important
5 I have always wanted to be my own boss.

Source: adapted from Feldman and Bolino (2000)

To gain further understanding of respondent attitudes, the researchers also implemented interviews to generate qualitative data. A major theme which emerged from these interviews was most self-employed persons have a desire to escape or avoid the bureaucracies which they perceive exist in large organisations. By starting their own business this permitted them to either have greater control over their future destinies or to have greater freedom to be creative. Their greatest frustration has been the discovery that running a small business often involves spending hours on administrative tasks such as dealing with paperwork, taxes and Government legislation.

Entrepreneurial traits

A number of academics have sought to identify a typology which defines the traits and the motivations which are specific to entrepreneurs. In many cases their aim has been to use the typology to then assess the degree to which certain traits can be associated with the business performance of small firms. The drawback in many of these proposed models is they are often based upon the researcher's own perceptions of what makes a successful entrepreneur and insufficient attention is given to validating the accuracy of the measurement scales which have been developed. As a result when other researchers have attempted to use these scales, the outcome has often been that of being unable to establish a statistically meaningful relationship between the measurement tool and business performance (Gartner 1988).

One recent exception to this generalisation about scale validity is the work undertaken by Robichaud et al. (2001). These researchers initially drew upon in-depth interviews with small business owners which, when linked to frameworks from other research studies, were used to develop a measurement tool based upon 18 questions. The tool formed the basis of a mail survey sent to almost 600 Canadian small business owner/managers. The large database that was generated permitted factor analysis to be applied to the results. The outcome, as shown in Table 1.2, was that the 18 questions could be assigned to one of four specific factors which are typically exhibited by entrepreneurs; namely (1) *independence/autonomy*, (2) *intrinsic reward*, (3) *extrinsic reward* and (4) *security*.

Table 1.2 *Items measuring entrepeneurial motivation*

Independence/autonomy	
1	Make my own decisions
2	Maintain my personal freedom
3	Self-employment
4	Be my own boss
5	Personal security
Intrinsic reward	
1	Personal growth
2	Gain public recognition
3	Prove I can succeed
Extrinsic reward	
1	Sales and profits
2	Achieve a comfortable living
3	Increase personal income
4	Achieve business growth
Security	
1	Build a business that can be passed on (or sold)
2	Be closer to my family
3	Provide security for my family
4	Build up wealth for retirement

Source: adapted from Robichaud et al. (2001)

Growth opportunities

Entrepreneurial success

Although examples of entrepreneurial success make fascinating reading, it is necessary to recognise that the vast majority of people launching or running a small firm will never have that 'big idea' which will make them fabulously wealthy. In fact the reverse is more probable. Many small businesses cease trading within 18 months of their launch and even those which continue to operate, usually only provide their owners with a relatively small income.

Over the years, researchers have attempted to identify a magic formula which can explain entrepreneurial success. Despite all their endeavours, nobody has yet been able to identify a business model which might guarantee that every entrepreneur can become extremely wealthy. To date, all that has been achieved is the identification of certain guidelines to minimise the risk of failure and improve the chances for an adequate level of profit to be generated. In relation to these guidelines, having undertaken small business research, mentored owner/managers, developed small business training schemes and launched new businesses, there are two rules which are this author's personal favourites. These are to seek to operate in a market (1) that is growing and (2) where customers exhibit a diversity of needs.

Growing markets are attractive because incremental revenue is generated from new customers entering the market. Furthermore, as the market is growing, the intensity of competition remains relatively low. This scenario can be contrasted with mature or declining markets, where the only source of additional sales is to steal customers from the competition. This means the combined costs of attracting new customers while concurrently protecting market share from competition will be extremely high, with a consequent reduction in company profitability.

Changing need opportunities

Where customers exhibit a changing need this provides opportunities for a firm to offer products and services which are radically different from those available from competition. Additionally, because many large firms prefer to operate in markets where high absolute profit can be generated, smaller firms can often find security by occupying sectors of the market which companies from the less proactive large firm sector do not yet perceive as offering significant new opportunities.

One such example of large firms ignoring emerging customer trends is provided by the tendency of virtually all large consumer branded goods companies to continue to focus their marketing efforts on the 18–49 year age group (Chaston 2009). The reason for this preference is rooted in the past when this customer group, often known as the 'baby boomers', represented the greatest source of absolute spending power in virtually every developed nation economy. The phrase 'baby boomers' was originally coined in America to describe people born between 1946 and 1964. The problem facing many large firms in Western nations is that population ageing is leading to a decline in the size of the 18–49 customer target group. Few consumer goods companies, however, appear to believe sales growth in their domestic markets can be generated by marketing more products to other age groups (Anon. 2006a).

This myopic attitude among large branded goods companies is likely to create new opportunities for the more entrepreneurial organisations in Western nation markets to exploit this increasingly important alternative customer segment. In the USA, for example, retirees comprise 30 per cent of the adult population, yet control 70 per cent of the net worth of US households. American retirees spend over $1 trillion a year on goods and services. A similar scenario is to be found in the UK where the highest median income within the entire UK population are individuals in the 60–64 age group with people aged 50+ accounting for 60 per cent of Britain's savings and 80 per cent of all personal assets.

The other reason for firms to focus on older consumers in developed nation economies is that individuals in the 18–49 age group will be most adversely affected by the recession which commenced in 2008. This is because the lax attitude of the financial institutions over the last ten years has resulted in younger people accumulating a huge level of personal debt, the scale of which has been exacerbated in many cases due to the collapse in house prices, leaving people in a negative equity position. Although nobody is able to predict either the depth or duration of the 2008 recession, what is clear is that the debt problems facing younger people will mean that this group's level of discretionary spending will remain depressed for the foreseeable future. The level of discretionary spending within this group will also be reduced because they will be forced to pay higher taxes in the future in order to pay off the huge public sector debts their Governments have created in an attempt to stimulate their respective economies.

CASE STUDY

The Saga saga

Case aims: To demonstrate (a) how an entrepreneur identifies an emerging market opportunity well ahead of potential large firm competitors, (b) the importance of sustaining entrepreneurial growth by responding to changing customer needs and (c) the use of collaboration to support growth through market diversification.

An excellent example of one of the first entrepreneurs to exploit the opportunities offered by the provision of services to older people is provided by Sydney de Haan, the founder of the UK firm Saga Ltd. Having recognised that large firms in the tourism industry were concentrating on the provision of holidays to families, he exploited this situation by entering the market offering holidays specifically designed to meet the needs of retired people. The first product was low-cost coach trips to the seaside. From the outset, de Haan was strongly committed to the concept of creating a competitive advantage through building close relationships with customers. He recognised this approach creates stronger customer loyalty, which inevitably leads to customers exhibiting a higher level of repeat purchasing. One aspect of Saga's relationship building is to monitor customer needs and where dissatisfaction or change in demand was identified, to immediately seek ways to further upgrade product and service provision. For example, within a few years after launch, Saga recognised that an increasing number of retirees, instead of visiting a UK seaside resort or taking a coach tour around England, had begun to desire more exotic holidays. Hence the firm moved into offering a range of overseas travel packages and subsequently, also entered the cruise ship market.

Growth orientated entrepreneurs often adopt the philosophy that once the core business has been established, ways should be found to sustain the revenue trends through product diversification. Some entrepreneurs know that once a large, loyal customer base has been created, organisations from the large firm sector may be interested in expanding market coverage. In return for the privilege of being granted access to an entrepreneurial firm's customers, they can be willing to enter into a commercial alliance. This is the concept which Saga has so effectively exploited. Since the early 1980s, the company has diversified into areas such as insurance, investments and web-based retailing. In those cases where Saga lacked the financial resources and expertise to supply a service, they formed a partnership with an existing major provider (e.g. offering Saga brand savings accounts operated in partnership with a Building Society).

Niche marketing

As well as often being slow in recognising the emergence of a new market segment, major corporations rarely have the flexibility or capability to service smaller market segments which initially only contain a limited group of customers who exhibit specialised needs. In many cases these specialist needs emerge as customers gain experience of the standard products offered by the mass marketing companies and begin, often due to the emergence of a lifestyle shift, to desire access to better, higher quality products. This scenario is why small firms can often avoid confrontations with large firms by adopting the philosophy of 'niche marketing' (Weinrauch et al. 1991). The potential drawback with this approach, however, is that should customer needs be easy to satisfy, the niche will rapidly become filled with other small firms all offering the same 'me too' propositions. Examples of this scenario are provided by independent grocery stores and small gift shops. Entrepreneurial firms are very aware of this risk and to avoid becoming involved in 'me too competition', seek to identify markets where the customers exhibit a unique product or service need which initially few competitors are able to satisfy.

CASE STUDY

Starbucks

Case aims: To demonstrate how entrepreneurs can compete with larger companies by (a) identifying a consumer niche ignored by large firms and (b) over time expand the niche into a major new market segment.

Since the emergence of a consumer-based economy in the USA, one of the sectors where there has been an intensive war for brand share is coffee. The primary players were Maxwell House owned by General Foods and Nestlé, followed later by Procter & Gamble's launch of Folgers coffee. Although these major companies occasionally attempted to build brand share through the introduction of improved products, their fundamental marketing assumption was that the main factor influencing consumers' purchase decision is price and there was little interest among consumers in being offered a superior quality product. In the early 1980s, Howard Schultz was a coffee buyer for the Starbucks Coffee Company which sold fresh, whole beans in five speciality stores in Seattle, Washington. On a trip to Italy he noticed the huge number of cafés selling a diverse range of coffee drinks such as latte and espresso. He proposed that the company let him open a café to exploit this potential niche in the US coffee market. The owners refused, so he resigned, raised $1.7 million and opened his first outlets in downtown Seattle. The focus of the operation was on quality as the basis for offering better tasting coffee. Schultz subsequently acquired the Starbucks company and renamed his outlets as Starbucks. Having validated that American consumers were exhibiting a preference for product quality over low price, Schultz expanded from a niche business to a mainstream operation by opening new outlets across the USA and subsequently expanding overseas (Slywotzky 1996).

SUMMARY LEARNING POINTS

- In the industrialised world, small firms are providing an increasingly important source of employment and making a significant contribution to GDP.
- Although small firms can provide an important source of job creation, this process only occurs in the more growth orientated smaller firms.

(Cont'd)