

ENTREPRENEURSHIP AND SMALL BUSINESS

START-UP, GROWTH AND MATURITY

FOURTH EDITION

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To Jean
My love and my inspiration

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






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



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ABOUT THE AUTHOR



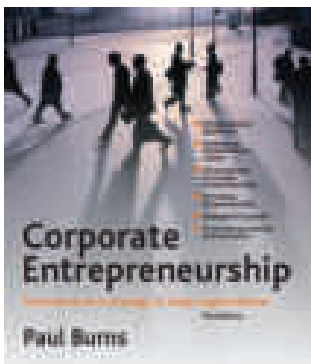
Paul Burns is Emeritus Professor of Entrepreneurship at the University of Bedfordshire Business School, UK. He has been Pro Vice Chancellor and for 10 years was Dean of the Business School, stepping down in 2011. Over his 40-year career he has been an academic, an accountant and an entrepreneur – giving him unrivalled academic and practical insight into the entrepreneurial process. As well as launching and running his own business, he has helped develop hundreds of business plans and has worked with entrepreneurs, small firms and their advisors, helping launch successful businesses.

For 10 years he was Professor of Small Business Development at Cranfield School of Management, UK, where, in 1983, he launched the Graduate Enterprise Programme in England, which was offered at dozens of universities. He started his academic career at Warwick University Business School, UK, where he set up their first Small Business Unit. For eight years he was Director of 3i European Enterprise Research Centre, researching small firms and entrepreneurs across Europe. He has been a Visiting Fellow at Harvard Business School, USA, and for three years was Visiting Professor at the Open University Business School, UK, where he developed the multi-media Small Business Programme which was screened on BBC2. He is Fellow and a former President of the Institute for Small Business and Entrepreneurship (ISBE).

Paul qualified as a Chartered Accountant with Arthur Andersen & Co., where he worked with many growing businesses. He launched and ran his own business, Design for Learning Ltd., advising and training on entrepreneurship and growing firms where he worked with organizations such as the accounting firms Grant Thornton and BDO Stoy Hayward, venture capitalists 3i, and banks such as the Royal Bank of Scotland, Barclays and Lloyds. He has advised and consulted at various levels of government in the UK and overseas, and Margaret Thatcher wrote the forward to one of his books, *Entrepreneur: Eight British success stories of the eighties* (Macmillan, 1988).

He has authored dozens of books and hundreds of journal articles and research reports. His last textbook, *New Venture Creation: A framework for entrepreneurial start-ups* (Palgrave Macmillan) was published in 2014. This sets out a comprehensive framework to help students through the whole process of new venture creation, including finding a business idea, developing a value proposition for customers and refining a business model that can be developed into a professional business plan. It has been praised as ‘the go-to-guide when it comes to new venture creation’ that is ‘bound to ensure that this book becomes a core text for new venture creation modules’.

Corporate Entrepreneurship: Innovation and strategy in large organizations (Palgrave Macmillan) was first published in 2005. The third edition, published in 2013, was praised as a ‘definitive guide’ that ‘combines a profound understanding of theory with practical guidance’. It shows how strategies for encouraging entrepreneurship and innovation might be embedded in larger organizations through the concept of ‘architecture’ – leadership, culture and structure.



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The publisher and author are grateful to all those who have provided third-party material for this book. All credit lines appear on the page next to the material in question.

PREFACE TO THE FOURTH EDITION

Entrepreneurship and Small Business has been the market-leading textbook on entrepreneurship in the UK for over a decade. Its strength comes from its ability to blend the theory and practice of entrepreneurship, reflecting the background of the author as entrepreneur, advisor and academic. The major strengths of the book have been retained in the fourth edition:

- > The unique breadth of coverage which allows a holistic approach to the issues facing the entrepreneurial organization as it grows;
- > The way it synthesizes theory and research with practice, using Case insights and quotes from entrepreneurs in the real world;
- > The engaging style that makes the book so accessible and easily understood by students, without sacrificing its academic content.

This fourth edition has been completely rewritten and updated. It has grown in size – again. New features include:

- > More *Case insights* with a broader international coverage – over 150 Case insights into organizations from 17 countries around the world, including the UK, USA, India, China as well as Europe, Asia and the Gulf;
- > New *Practice insights* that provide tips on how to get things done or access additional resources;

- > New chapters on the economics of entrepreneurship and public policy as well as operations and risk;
- > Integration of social and civic entrepreneurship with the main body of the book, so that it is no longer treated as an entirely separate organizational form;
- > Extended coverage of values and ethics, corporate social responsibility, sustainable entrepreneurship and entrepreneurial philanthropy;
- > Greater focus on internet and e-commerce businesses both in the text and the Case insights;
- > Improved coverage of lean start-ups and the opportunities provided for this by the internet;
- > Improved online learning resources that include an instructors' manual, PowerPoint slides and 'Meet the Entrepreneur' video case studies as well as an interactive ebook format of the book.

Keeping up to date is a challenge in any text that sets out to be practical and current. This is achieved by the extensive signposting to websites that offer up-to-date information about organizations that feature in the Case insights as well as those offering practical help and advice.

I would like to thank all those academic colleagues who continue to recommend the book and those who have suggested improvements. I hope I have met your expectations with this fourth edition.



Meet the author and hear about his own experiences as both an academic and entrepreneur by clicking on the play button in your ebook.

HOW TO USE THE BOOK

This book is written for a range of undergraduate and postgraduate courses, with the aim of developing an understanding of entrepreneurship as well as fostering entrepreneurial talent and developing entrepreneurial skills. It is supported by an interactive ebook and further online teaching and learning resources.

What the book aims to do

The book blends the practice and the theory of entrepreneurship with up-to-date research. It looks at many different forms of entrepreneurship, including social, civic, sustainable and philanthropic. It covers the process of entrepreneurship from start-up, growth and through to maturity. It looks at the links with innovation and economic growth as well as public policy towards entrepreneurship. Concepts and theories do not have to be complicated, and the engaging, accessible style of the book makes it easy to understand.

The book is also practical. It contains Practice insights – tips and advice about how to do things as well as signposts to where resources can be found. Entrepreneurship is a risky activity and anything you can do to reduce the risk of failure must be good. So, students can learn from the successes and mistakes of other entrepreneurs. This book contains over 150 Case insights into organizations from 17 countries around the world. There are also numerous quotes from entrepreneurs, reinforcing the theory and research. The research outlined in the book tells students which tips have the best chance of working (and which do not) and theory tells them why they might work. The Case insights show them how they work.

Who the book is aimed at

The book can be used as a specialist text on entrepreneurship for both undergraduate and postgraduate courses such as a MBA. While entrepreneurship is recognized as a topic in its own right, for students who have previously studied business and management, an entrepreneurship course typically aims to integrate and apply most of the functional areas they have

previously studied and give it a creative and practical focus. This helps them better see the interconnections in the topics they have already studied and realize that the solutions to real business problems require the application of all the areas they have studied. For these students, the case studies are particularly important, while some of the chapters that cover the ‘basics’ of business can be skimmed over.

The book can also be used as a comprehensive core text for an ‘introduction to business’ course, albeit with an entrepreneurial focus. It covers core areas such as management, strategy, marketing, accounting and finance. However, rather than teach the subject in subject-based compartments, relevant chapters are designed to act as a holistic introduction to the topic of business studies in the practical context of a business start-up and growth. Again, students can better see the interconnections and realize that solutions to real business problems require the application of a wide range of business subjects. Relevance and practicality can also aid motivation.

Learning style and resources

Each chapter starts with the learning outcomes that identify the key concepts to be covered and the key knowledge and skills that are gained by reading the chapter and undertaking the activities. At the end of each chapter there is a chapter summary that provides an overview of the main points covered.

For all students, the practical focus of what is needed to start up and grow your own business is both motivating and practical. But, while I do believe that you can enhance entrepreneurial skills through education, I also believe that you really learn these skills by ‘doing’ rather than by just reading a book. This is why the learning resources contained in the book and on the supporting website are important. They are an integral part of the ‘learning’.



Case insights

Embedded in each chapter are Cases insights – each with questions. These are designed to make students think about

and apply the concepts being explained and discussed in that chapter. Case notes are available on the lecturers' password-protected part of the supporting website.



Social enterprise cases

Many insights are on issues affecting social enterprise and these are denoted by an additional symbol.



Practice insights

These provide a range of practical tips and advice on how to get things done or access additional resources, replicating some of the characteristics of more 'how-to-do-it' texts.



Activities

Activities at the end of each chapter involve doing something, in the main further research. This research is often desk-based – including visits to information or organization websites – but some of the most popular assignments, in my experience, involve students going out to do things – such as interviewing entrepreneurs.



Group discussion topics

Each chapter has topics for group discussion. These can be used as a basis for tutorials. They are designed to make students think about the text material and develop their critical and reflective understanding of it and what it means in the real world.



References

Each chapter has full journal and book references so that students can follow up on the details of any research cited. There are also selected further textbooks, organized by topic, and selected journals on the supporting website.



Meet the Entrepreneurs video case studies

At the end of each Part of the book there are installments of seven video case studies featuring real-life entrepreneurs who share their stories and experiences, highlighting key themes and topics discussed in the chapters.

In the final analysis, any course on entrepreneurship must challenge students to think entrepreneurially. It must make

them aware of opportunities in the marketplace and generate a 'can-do' mentality. It must empower them and convince them that they can shape their own destinies. It must make them realize how important the entrepreneur is to the small firm and to society as a whole. It must make them realize how business problems do not come in neatly labelled boxes reflecting the way the subject is taught. But, most of all, it must be interesting and fun.

Learning outcomes

The major challenge facing business schools today is how to encourage and develop the entrepreneurial skills of students. This book is designed to address this issue. It is written to motivate students to become more entrepreneurial at the same time as providing frameworks to nurture these precious skills in a systematic way. At its core is creativity and innovation – invaluable skills in today's competitive markets. Its holistic nature crosses artificial subject boundaries and integrates traditional disciplines. Its practical focus means that skills have to be applied.

The book will help students:

- > Critically analyse and understand the process of entrepreneurship from start-up through growth to maturity;
- > Develop a holistic range of applied business and management skills to enable them to start up a new venture and understand how it might grow to achieve its full potential;
- > Critically assess and reflect on whether they have the character traits of an entrepreneur;
- > Critically analyse what is needed to become an entrepreneurial leader and how to structure an organization so as to maintain its entrepreneurial character;
- > Write a professional business plan.

It will help them develop cognitive skills in the following areas:

- > Data and information interpretation, critical analysis and evaluation;
- > Problem identification and solving;
- > ICT, in particular the use of the internet;
- > The ability to use research and link theory with practice;
- > Writing and presentation.

GUIDED TOUR OF THE BOOK



Click on the play button in the ebook to watch a video interview of Paul Burns on the subject of entrepreneurship.

Author video interviews open each part of the book, introducing some of the key questions and issues to be discussed.

Learning outcomes identify the key concepts to be covered in the chapter and the key knowledge and skills you will acquire by reading it and undertaking the related activities.

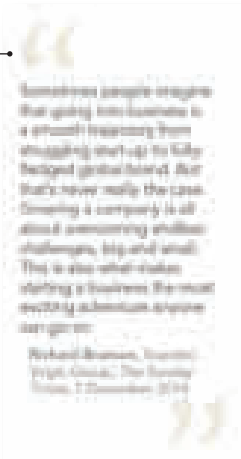
Learning outcomes

- When you have read this chapter and undertaken the related activities you will be able to:
- Critically analyse the changing economic environment and how it impacts on an economic group
 - Explain how the approach entrepreneurs take to management in a 'new global' environment differs from 'traditional' management
 - Define social business, micro-business and social-impact business, economic group and startup
 - Define small firms and understand their characteristics
 - Explain why entrepreneurs and small firms are so common in the economies of most countries
 - Understand the role of social enterprise in a business and its financial implications
 - Understand the 'new' global business and entrepreneurial landscape

Practice insights give tips on how to get things done or access additional resources.



Quotes from entrepreneurs give their views and insights into entrepreneurship.



Case insights with questions are woven throughout the book showing how organizations address real issues and apply the concepts explained in the chapter.



The numerous cases on social enterprises are denoted by this symbol.

MEET THE ENTREPRENEURS

Accompanying this book are seven in-depth video case studies with successful entrepreneurs, covering a range of businesses and geographical locations. These videos interrogate the entrepreneurs on the experiences and challenges they have faced starting and managing their own businesses, and offer students an invaluable insight into life as an entrepreneur.

Following the lifecycle of each business, the videos have been divided into four sections that mirror the structure of the book, and can be found at the end of each Part, on pages 142, 292, 410 and 527. The videos draw out issues that have been discussed across different chapters, and allow a useful exploration of both common themes shared by all businesses as well as industry-specific issues. The accompanying questions invite you to critically analyse and compare what you have learned.

The full videos for each entrepreneur are also available on the companion website, if you would like to hear their story from start to end uninterrupted.

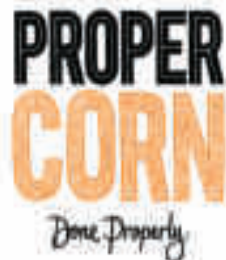
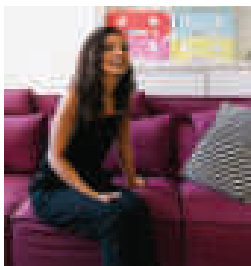
AJ Asver, co-founder, Scoopler/JustSpotted, USA



AJ is co-founder of the real-time search engine Scoopler and the celebrity-spotting website JustSpotted. Having grown up in the UK, AJ travelled to San Francisco in 2008 to turn his business dreams into reality. Spotting a clear business opportunity, AJ's original business idea shifted and so Scoopler became JustSpotted. Within three years of operation, JustSpotted was successful enough to be noticed and eventually bought by none other than search giant Google. In 2014, AJ left Google, after working there for three years, with plans to embark on a new start-up in the music space. And he's only just turned 30.

Cassandra Stavrou, co-founder, Propercorn, UK

www.propercorn.com/



Propercorn started in Cassandra's kitchen when she was just 25. After realizing that all '3pm slump' snacks either left her feeling guilty or dissatisfied, Cassandra set out to make a gluten-free popcorn range without the compromise. It would be "popcorn done properly".

Starting out with cold calls and endless nights packing boxes at her business partner, Ryan's, flat, Propercorn now has a team of

30 based in London and exports to six countries in Europe. Since first launching in the Google London headquarters in October 2011, Propercorn has emerged as one of the fastest growing brands in the UK, with Cassandra working tirelessly to create a dynamic business, grounded in passion and excitement for popcorn.

John Loughton, founder, Dare2Lead, UK

www.dare2lead.co.uk



John is a social entrepreneur, campaigner and motivational speaker. John founded award-winning leadership development company Dare2Lead in 2011, at the age of 23. John ran his first campaign aged 11 and has engaged world leaders such as Queen Elizabeth, the UN Secretary General and the President of the European Parliament, working in over 35 countries. In 2013 he was named Outstanding Youth of the World.

A business with strong social objectives, Dare2Lead is passionate about unlocking the success potential of organizations through corporate and management training while also making a positive difference in society by empowering young people through emerging leadership and development programmes. Their range of leadership development programmes combines real-life experiences of leadership and success alongside proven leadership and management tools. Their client base includes governments, NGOs, large corporates, small businesses and a range of public bodies.

Ross Beerman, co-founder and CEO, AllLife, South Africa

<http://alllife.co.za>



Ross has worked both in South Africa and internationally in the financial services sector. He worked in Corporate Finance and M&A in the USA, and returned to South Africa in 1998 to work in private equity. In 2001, Ross founded Theta Specialised Finance, a principal acquirer of distressed credit instruments, which was sold to a strategic buyer at the end of 2003. In 2004 Ross co-founded AllLife with the intent to provide life insurance to people living with HIV, based on the premise that properly designed systems and processes, combined with great people, could cost-effectively intervene to help clients manage their health and change their mortality. AllLife has delivered life insurance to tens of thousands of HIV+ people and has recently begun leveraging its IP, systems and processes to also deliver easily accessible life insurance to diabetics in South Africa and abroad.



Sandra Wanduragala, founder, and Selyna Peiris, business development director, Selyn Handlooms, Sri Lanka

<http://www.selyn.lk/>



In 1991, Sandra Wanduragala gave up her career as an attorney-at-law to start Selyn, in rural Sri Lanka. From the start, Selyn has been a family business. Sandra built the company alongside her brother, Hilary. Her daughter, Selyna (who the company is named after), is also now involved in the business.

Selyn is Sri Lanka's only fair trade-guaranteed handloom company, and one of the country's biggest social enterprises. Selyn has revived the traditional Sri Lankan craft of handloom weaving to create its wide product range, including fabrics, garments, jewellery, home accessories and children's toys. These products are sold locally in Sri Lanka and globally in key export markets in the European Union, the USA and parts of Asia. Selyn began with 15 women in a

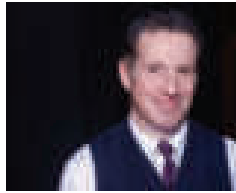




small rural village but has now grown to around 1,000 members, 95% of whom are women. In addition to infrastructure, technical support and a guaranteed flow of work, members are offered services such as health camps, childcare facilities, and life skills, leadership and entrepreneurship development programmes. The Selyn Foundation extends beyond the business; it is a grassroots effort to relieve poverty and empower Sri Lankan youth and women by means of education, vocational training, credit-provisions and other developmental tools.

Scott Cupit, founder and managing director, Swing Patrol, UK and Australia

www.swingpatrol.co.uk



Swing-dance performer, teacher, choreographer and general enthusiast Scott founded Swing Patrol London, the dance school and events business, in 2009, based on his experience co-founding and running Swing Patrol Melbourne in his home country of Australia.



Scott has been recruited as Assistant Charleston Choreographer to Jenny Thomas on the hit UK television show *Strictly Come Dancing*, was crowned 2015 Dance Teacher of the Year, and has danced at both Buckingham Palace and 10 Downing Street. From a handful of students in a single venue, in just six years Swing Patrol London has grown to a team of over 54 teachers operating from over 40 venues across London, holding hundreds of social events each year and has developed corporate

events and content-marketing functions. In 2014, Scott appeared on the popular UK television show *Dragons' Den*, and successfully secured investment from Deborah Meaden.

Stefan Botha, founder and director, Rainmaker Marketing, South Africa

www.rainmakermarketing.co.za



With several years of experience in the area of property development marketing, Stefan decided to start his own business in 2012, and so Rainmaker Marketing was born.

With a focus on building and transforming brands, Rainmaker Marketing provides a turn-key sales and marketing solution that specializes in property development marketing and hospitality branding. With a niche approach, and a comprehensive in-house team, the business has worked on large-scale property developments throughout South Africa, Mauritius and Mozambique.



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- > Bonus international case studies
- > Guides to sources of further information & laws & regulations for businesses in the UK
- > Links to other online sources of help & advice, including online tests
- > Downloadable versions of the New Venture Creation framework & business plan

PART 1 ENTREPRENEURSHIP

CHAPTER 1 ENTREPRENEURSHIP: THE SOCIAL AND BUSINESS REVOLUTION

CHAPTER 2 THE ECONOMICS OF ENTREPRENEURSHIP AND PUBLIC POLICY

CHAPTER 3 THE ENTREPRENEURIAL CHARACTER

CHAPTER 4 DISCOVERING A BUSINESS IDEA

CHAPTER 5 RESEARCHING AND EVALUATING THE BUSINESS IDEA



MEET THE ENTREPRENEURS



Click on the play button in your ebook to watch a video interview of Paul Burns on the subject of entrepreneurship.

PART 2 START-UP

PART 3 GROWTH

PART 4 MATURITY

1 | ENTREPRENEURSHIP: THE SOCIAL AND BUSINESS REVOLUTION

Contents

- The new age of uncertainty
- An age of change and opportunity
- Managing change and uncertainty
- The entrepreneurial revolution
- Entrepreneurial management
- Defining the entrepreneur
- Defining small firms
- Small firms in the UK
- Small firms around the world
- Global Entrepreneurship Monitor (GEM)
- Social and civic entrepreneurs
- Conflicts within social enterprise
- Sustainable entrepreneurship
- Summary



Getty

Learning outcomes

When you have read this chapter and undertaken the related activities you will be able to:

- > Critically analyse the changing commercial environment and how it impacts on entrepreneurship;
- > Explain how the approach entrepreneurs take to management in a risky, uncertain environment differs from 'traditional' management;
- > Define an entrepreneur and understand the different forms entrepreneurship might take;
- > Define small firms and understand their characteristics;
- > Explain why entrepreneurs and small firms are so important to the economies of modern countries;
- > Understand the role of social and civic entrepreneurs and the issues they face;
- > Understand the meaning of sustainable entrepreneurship.



Case insights

Instagram
Material Pleasures
AirAsia
LED Hut
Amanti Cupcakes
Monkey Music

Kiran Mazumdar-Shaw and Biocon
Grameen Bank
The Entertainer
SBA Hydro
Goodone

The new age of uncertainty

The old world order has changed and continues to change. Economic power is moving east from the USA and Europe to China and India. If the most startling evidence of this was the financial crisis of 2008 that plunged the mature Western economies into recession, the seeds of change were sown much earlier. So far the 21st century has seen enormous turbulence and disruption. There have been the unpredictable shocks caused by terrorist attacks around the world, followed by the wars in Afghanistan and Iraq. The upheavals caused by the so-called Arab Spring of 2011 continue to affect the Middle East, not least Syria. There have been natural disasters like the Icelandic volcano in 2010, the earthquake and tsunami in Japan in 2011 and the outbreak of Ebola in West Africa in 2014. There have been enormous shocks to the international monetary system precipitated by the banking crisis of 2008, which have particularly affected the Eurozone. There have also been some spectacular corporate failures, from Lehman Brothers in the USA to Royal Bank of Scotland (RBS) in the UK. Corporate integrity has come to be questioned. The unexpected failure of Enron in the USA in 2001, one of the most admired firms of the 1990s, became a benchmark for management greed and lack of integrity. But such scandals were not confined to the USA. Parmalat in Italy became the largest bankruptcy in Europe in 2003. The Olympus scandal of 2012 in Japan led to prosecutions. In addition, banks across the world have been rocked by a series of scandals that have led to fines and government intervention. Alongside this the 21st century has seen unprecedented volatility in just about every market, from commodities to exchange rates, from stock markets to bond markets. And behind this volatility is the uncertainty surrounding climate change and whether we have reached a 'tipping point' in global warming.

Underpinning the volatility is the development of global connectivity – an increasingly complex world full of interconnections formed by a truly global marketplace linked by new technologies that allow instant communication from almost anywhere. Small changes tend to be amplified in highly connected systems. Actions in one part of a market can have unexpected and rapid consequences in another part of it. And nobody, not even sovereign states, seem able to control this. And the pace of change has accelerated. Change itself has changed to become a continuous process of often-discontinuous steps – abrupt and all-persuasive. The ancient Chinese saw change as endless and an essential feature of our universe – a pattern of cyclical coming and going, growth and decay, winter and summer, the yin of night and yang of day. Somehow the West had forgotten this, believing instead that we could create stability and certainty, that change was a series of discrete events that moved us from one stable state to another. Economists based theories on it. And economists, politicians and managers focused on the ways that change could be controlled in a systematic way.

With the new age of uncertainty came austerity. Recession and stagnation became the order of the day after the banking crisis of 2008, leading to a persistent rise in unemployment and deepening income inequality. The shift from boom to recession simply made us realize our vulnerability in this new era. Commercial opportunities remain but competition is now as much about survival as growth. And, as global competition continues to increase, sources of competitive advantage are proving increasingly difficult to sustain over any period of time. So much so that it is the ability to create new sources of competitive advantage quickly, again and again, that is proving to be the only sustainable source of real competitive advantage. At the same time as seeking new sources of competitive advantage, businesses must continue to manage existing businesses. They must find ways of managing to achieve cost efficiencies while at the same time differentiating themselves from the competition. They must find ways to innovate at the same time as managing products at the mature stage of their life cycle. They must find ways of understanding and reconciling customer needs in both India and the USA, of reconciling global integration with local differentiation. And they must respond to changes in these needs quickly, just as they must react quickly to the actions of competitors.

The new age has also seen companies face new social pressures. Corporate scandals have led to cries for improved corporate governance and boardroom accountability. Excessive executive

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Sometimes people imagine that going into business is a smooth trajectory from struggling start-up to fully-fledged global brand. But that's never really the case. Growing a company is all about overcoming endless challenges, big and small. This is also what makes starting a business the most exciting adventure anyone can go on.

Richard Branson, founder, Virgin Group, *The Sunday Times*, 7 December 2014

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We stand on the threshold of a new age – the age of revolution. In our minds, we know the new age has already arrived: in our bellies, we're not sure we like it. For we know it is going to be an age of upheaval, of tumult, of fortunes made and unmade at head-snapping speed. For change has changed. No longer is it additive. No longer does it move in a straight line. In the twenty first century, change is discontinuous, abrupt, seditious.

Gary Hamel, 2000, *Leading the Revolution*, Boston: Harvard Business School Press

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salaries and bonuses that bore no relationship to the performance of the organization, exemplified in the banks, have redoubled these cries. At the same time, companies have been pressurized to take a more socially responsible role. This pressure comes from many sources. Environmentalists want companies to reduce their 'carbon footprint' and espouse 'green' issues and become more sustainable. Social reformers want them to change some of their behaviours, for example exploitation of child labour in developing economies. Social activists want them to espouse 'corporate citizenship' programmes and undertake charity work in the community. Finally, ethical activists see many companies behaving in unacceptable ways and want business ethics to be re-established in the boardroom. All these issues have become bundled together under the umbrella of Corporate Social Responsibility (CSR). CSR is seen as increasingly important.

An age of change and opportunity

But for entrepreneurs change presents opportunities – and these changes have meant small entrepreneurial firms have flourished. For entrepreneurs CSR is an opportunity to be both ethical *and* to improve competitiveness by differentiating themselves from competitors. Other factors have accelerated this trend towards smaller, more entrepreneurial firms. There has been the shift in most economies away from manufacturing towards the service sectors where small firms often flourish because of their ability to deliver a personalized, flexible, tailor-made service at a local level.

Technology has played its part. It has influenced the trend in three ways. Firstly, the new technologies that swept the late-20th-century business world have been pioneered by new, rapidly growing firms. Small firms have pioneered innovation in computers, the internet and mobile technologies, creating new markets for these innovations. Small firms have been at the forefront of developing mobile applications, or apps, because the costs of doing so are low but the gains from selling to a global market can be enormous. Secondly, these technologies have actually facilitated the growth of self-employment and small business by easing communication, encouraging working from home and allowing smaller and smaller market segments to be serviced. Indeed, information has become a product in its own right and one that can be generated anywhere around the world and transported at the touch of a button. Finally, many new technologies, for example digital printing, have reduced fixed costs so that production can be profitable in smaller, more flexible units. They have also simplified the routes to market so that small firms can sell to larger firms or direct to customers around the world, without the expense of putting in place a distribution network. And as large firms increasingly outsource non-core activities, the beneficiaries are often small firms.

As we have moved from an industrial economy to a knowledge economy, driven by new digital technologies, new commercial opportunities have continued to emerge both from technological and market innovation, sometimes breaking down established industry barriers and creating new and unexpected sources of competition. For example, the internet has caused many high-street retailers to radically reappraise their customer offering and will probably lead to the high street looking very different in the future. It has caused the music, video and print industries to reappraise how their products are distributed. It has caused disruption, generating as many opportunities as threats. Entrepreneurs have been quick to capitalize on these opportunities to establish new businesses with less capital than before.

This move to a knowledge economy has also meant that economies of scale (with costs declining as volumes increase) have become less important as a form of competitive advantage. For example, a high proportion of innovations in the pharmaceutical industry now come from small firms set up specifically to undertake research and

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Today countless innovative business models are emerging. Entirely new industries are forming as old ones crumble. Upstarts are challenging the old guard, some of whom are struggling feverishly to reinvent themselves.

Alexander Osterwalder and Yves Pigneur, 2010, *Business Model Generation: A Handbook for Visionaries, Game Changers and Challengers*, New Jersey: John Wiley & Sons

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development. Value is increasingly being created, not from physical assets, but from knowledge and the virtual assets it creates – a shift from assets that must be purchased and then restrict flexibility to ones that can be built up over time and used in many different ways. A high proportion of high-growth firms (called ‘gazelles’ by academics) hold intellectual property and intangible assets such as trademarks and patents (Department of Business, Enterprise and Regulatory Reform, 2008), and investment in so-called intangible assets such as computer codes, copyrights and patents is now 50% higher than investment in tangible assets such as plant and machinery, and is increasing.

These developments in technology have affected markets. Customers increasingly expect firms to address their particular needs. Market niches are becoming slimmer and markets more competitive – better served by smaller firms that can get close to their customers. The new technologies mean that these niche markets can be attacked globally, making them economic. Start-ups are also able to focus on them straight away without having to set up a costly international sales and distribution network. You can sell on the internet and subcontract delivery. The international start-up is now an everyday occurrence. This disruption has affected the way customers buy from the high street and in the supermarket. The high street has become a place to spend leisure time rather than shopping time – presenting opportunities for small service businesses. The advent of ‘click and collect’ has affected the whole retail trade, accelerating the trend towards smaller, local stores and away from supermarkets.

Social trends have also accelerated the growth of small firms. People want to control their own destiny more. After periods of high unemployment, they see self-employment as more attractive and more secure than employment. Redundancy has pushed many people into self-employment at the same time as the new ‘enterprise culture’ gave it political and social respectability. And, in an age of uncertainty people seek to control as many aspects of their economic security as possible. The growth of the ‘new-age’ culture and ‘alternative’ lifestyles, encouraged by worries about climate change, have also led to the development of a whole range of new self-employment and sustainable opportunities, albeit often at the periphery of the economy. And finally the role of entrepreneur has become respectable and admired.

Managing change and uncertainty

While large firms have increasingly found difficulty in dealing with this new order, start-ups and smaller ventures seem to find opportunities that these larger, more established firms find threatening. Even in this age of uncertainty and austerity they thrive, despite facing increasingly fierce competition. McMillan (2004) characterized what she called the ‘traditional, classical, mechanistic’ view of change as abnormal, potentially calamitous, an incremental linear event that is disruptive that can be controlled. She contrasted this to what she called the ‘new, modern dynamic’ view that change is normal, continuous, turbulent, both revolutionary and incremental, uncontrollable and non-linear but full of opportunities. The two views are contrasted in Table 1.1.

Table 1.1 Traditional vs modern views of change

| Traditional, classical, mechanistic view of change | | New, modern, dynamic view of change |
|--|----|-------------------------------------|
| Abnormal | vs | Normal |
| Incremental | vs | Both revolutionary and incremental |
| Linear | vs | Non-linear |
| Disruptive | vs | Turbulent |
| Potentially calamitous | vs | Full of opportunity |
| Cause and effect | vs | About learning and creativity |
| An event | vs | Continuous |
| Controllable | vs | Uncontrollable |



The guiding principles in a traditional corporate culture are: follow the instructions given; do not make any mistakes; do not fail; do not take initiatives but wait for instructions; stay within your turf; and protect your backside. The restrictive environment is of course not conducive to creativity, flexibility, independence, and risk taking.

Hisrich and Peters, 1992,
*Entrepreneurship: Starting,
Developing and Managing a
New Enterprise*, Homewood,
IL: Irwin



The Entrepreneurial Revolution is here to stay, having set the genetic code of the US and global economy for the 21st century, and having sounded the death knell for Brontosaurus Capitalism of yesteryear. Entrepreneurs are the creators, the innovators, and the leaders who give back to society, as philanthropists, directors and trustees, and who, more than any others, change the way people live, work, learn, play, and lead. Entrepreneurs create new technologies, products, processes, and services that become the next wave of new industries. Entrepreneurs create value with high potential, high growth companies which are the job creation engines of the US economy.

Jeffrey Timmons, 1999,
*New Venture Creation:
Entrepreneurship for the
21st Century*, Boston: Irwin/
McGraw-Hill



The approach of managers in big companies to managing change was to employ the rational techniques of long-term planning and tight control systems. But they were finding it difficult to cope with the changing environment by the end of the 20th century. They cut budgets, closed plants, downsized or 'rightsized', deconstructed – and went out of business. The 'deconstruction' of larger firms into smaller, more responsive units concentrating on their core activities, often 'outsourcing' or subcontracting many of their other activities to smaller firms, has also contributed to the trend towards smaller firms. Large firms and even the public sector became leaner and fitter in the 1980s in a bid to reduce fixed costs and reduce risks. Small firms have benefited, although many may be seen as dependent on large ones.

But the core of the problem is that traditional management practices focus on efficiency and effectiveness rather than creativity and innovation – control rather than empowerment. They look for cost savings through scale efficiencies rather than differentiation through economies of small scale. They look for uniformity rather than diversity and stress discipline rather than motivation. And they often discourage what they see as the risk-taking associated with a market opportunity without the information to evaluate it, by which time the opportunity will have been seized by a small firm. Add all this to the danger that bureaucracy will swamp the organizations that practise this traditional form of management, that they will ossify, and you have the makings of disaster. No wonder big was no longer beautiful.

The entrepreneurial revolution

This new age of uncertainty has powerful implications for all organizations. Planning becomes problematic if you cannot predict the future, and strategic management faces completely new challenges as the linear models based on knowledge and information and used for decades seem increasingly unrealistic. And yet entrepreneurs not only cope but thrive.

Over the last 30 years, entrepreneurs establishing new ventures have done more to create wealth than firms at any time before them – ever! Of the current wealth of the USA, 95% has been created since 1980. And as we look around for role models, we realize that so many of our most successful corporations have been founded in our lifetime. Of the 100 largest public companies in the USA, 31 were founded by an entrepreneur during the post-war era, creating over four million jobs, and 29% of US firms on the Global FT 500 list were founded after 1950 (Sanandaji and Sanandaji, 2014). For example, Bill Gates started Microsoft in 1975, the late Steve Jobs started Apple in 1976, Michael Dell set up the Dell Corporation in 1984, Pierre Omidyar launched eBay in 1995 and Larry Page and Sergey Brin launched Google in 1996. And, although not to the same extent, this was not just happening in the USA. In the UK, Alan Sugar launched Amstrad in 1968, Richard Branson started his Virgin empire in 1972, James Dyson started selling his Dyson vacuum cleaners in 1976, the late Anita Roddick opened the first Body Shop in 1976 and Julian Metcalfe and Sinclair Beecham opened their first Pret A Manger in 1986. In India, Sunil Mittal started the first business that was to become Bharti Enterprises in 1976 and Kiran Mazumdar-Shaw started Biocon in 1978. These are now gigantic corporations that made their founders household names and millionaires.

Finally, people have begun to appreciate the contribution all small firms make to the economies of their countries. It was David Birch (1979) who, arguably, started this process with his seminal research which showed that 82% of new jobs in the USA, between 1969 and 1976, were created by small firms (under 500 employees). In fact, Haltiwanger et al. (2013) have shown that it is young, newly created firms rather than established small firms generally that create most jobs. Small, growing firms create jobs from which the rest of society benefits. They have outstripped large firms in terms of job generation, year on year. At times when larger firms have retrenched, smaller firms continue to offer job opportunities. It has been estimated that in the USA small firms now generate half of GDP and over half of exports now come from firms employing fewer than 20 people. What is more, they make up a large part of the voting population. Over 95% of enterprises are 'small', no matter how that is defined. No wonder our governments and media are so fascinated by them.

Entrepreneurship has become something that society, governments and organizations of all sizes and forms wish to encourage and promote. Whether it be creating a new venture or breathing life into an old one, whether it is creating new products or finding new ways to market old ones, whether it is doing new things or finding new ways of doing old things, entrepreneurial management – whatever that is – has become a highly valued skill to be nurtured, developed and encouraged. Fostering entrepreneurship in all aspects of their teaching is probably one of the major challenges facing business schools in the 21st century. Entrepreneurs themselves have finally been recognized as a vital part of economic wealth generation. They have become the heroes of the business world, embodying qualities that many people envy – freedom of spirit, creativity, vision and zeal. They have the courage, self-belief and commitment to turn dreams into realities. They are the catalysts for economic and sometimes social change. They see an opportunity, commercialize it, and in doing so become millionaires themselves.

Entrepreneurial management

So, how do these successful entrepreneurs manage their businesses? The key is their different approach to dealing with risk and uncertainty. And at the core of this is a very personal approach to management generally – one that emphasizes that a new business is a social entity built around personal relationships and around one person, the founder, or as a colleague put it, ‘two arms, two legs and a giant ego’. The key to understanding how any small firm is managed is to understand the owner-manager. Their personality and their behavioural characteristics will strongly influence this. It affects how customers and staff are handled and how decisions are made.

Successful entrepreneurs are good at developing relationships with customers, staff, suppliers and all the stakeholders in the business. They are able to form loyal relationships with customers. They tend to manage their staff by developing strong personal relationships rather than relying on formal structures and hierarchies. Formality reduces flexibility, so they manage informally, setting an example by their behaviour. This ability to form strong personal relationships helps them develop the partnerships and networks that are part of the social capital they create. It enables them to leverage the strategic skills of the partnership. However, there is always the danger of overdependence on the founder and too little delegation of authority as it grows.

These relationships are at the core of how entrepreneurs deal with the risk. While they are prepared to take measured risks, they always want to keep them to a minimum. Their network of personal relationships can give them early warning of a risk materializing. It can also alert them to new opportunities. It is a major source of knowledge and information. However, small firms typically approach decision-making differently than larger firms. They tend to adopt an incremental approach that is often seen as short-term. But, as we shall see, limiting commitment is an approach that helps mitigate risk in uncertain environments. Entrepreneurs tend to keep capital investment and fixed costs as low as possible, often by subcontracting activities. They tend to commit costs only after the opportunity has proved to be real and then only commit limited resources – the resources they can afford to lose. This may be prudent and reflect their resource limits, but it can mean losing first-mover advantage for a new product or service, which is why they frequently experiment and learn from a ‘limited launch’ into the market. Finally, entrepreneurs are adept at compartmentalizing risk, for example by separating out business ventures into separate legal entities, so that the failure of one does not endanger the survival of the others. We shall look at how risk can be managed in Chapters 9 and 10.



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The mind-set that in a huge global economy the multinationals dominate world business couldn't have been more wrong. The bigger and more open the world economy becomes, the more small and middle-sized companies will dominate.

John Naisbitt, 1994, *Global Paradox: The Bigger the World Economy, the More Powerful Its Smaller Players*, London: BCA

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It is not possible to draw a picture of the universe, but we know it and how fast it is moving and developing. It is like describing the shape of a large cloud in the sky, blown off by a strong wind. Yet we know its shape and where it is because we sense it. Although it is not entirely possible to describe it in a static way, a world-class entrepreneur can describe it and even capture a large chunk of it, converting it into raindrops or profit.

Kenichi Ohmae, 2005, *The Next Global Stage: Challenges and Opportunities in our Borderless World*, New Jersey: Pearson Education

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Entrepreneurs also develop strategy differently. They are often accused of not developing any strategy at all and are often seen as being intuitive, almost whimsical, in their decision-making. Economists find it difficult to understand and to model. It certainly does not fit well into 'logical' economic models such as discounted cash flow. The reason lies at the heart of any entrepreneurial venture – the greater degree of risk and uncertainty it faces. The result is a different approach that is just as logical but little understood. Although it may not be there at the launch of a business, successful entrepreneurs quickly develop a strong vision of what they want their businesses to become. Although they do not always know how they will achieve the vision because of the uncertain environment they face, they have strong 'strategic intent'. This is accompanied by a loose or flexible strategy underpinned by continuous strategizing – assessing the options about how to make the most of opportunities or avoid risks as they arise. By creating more strategic options they improve their chances of successfully pursuing at least one opportunity and avoiding most risks – albeit possibly at the expense of short-term profits. They keep as many options open as long as possible. The greater the number of strategic options, the safer they are in an age of uncertainty. We shall look at how entrepreneurs develop strategy in Chapters 6 and 12. Make no mistake; entrepreneurs to a large extent create their own luck.

Successful entrepreneurs find ways of reconciling these issues – ways of developing strategy without overcommitting to one course of action and ways of minimizing their investment in resources. They are adept at using networks of relationships to the full and mitigating the risks they face. They can stay flexible, able to grasp commercial opportunities quickly. And as their businesses have grown, these successful entrepreneurs have created organizational structures that are fleet of foot and flexible, structures that are able to adapt and cope with rapid change. McMillan (op. cit.) cast the net wide in searching for ideas about how to deal with change by saying that we need to look at quantum physics and complexity theory – which we shall indeed return to in Chapters 18 and 19 when we look at how entrepreneurial firms organize themselves.



Case insight Instagram



Entrepreneurial start-and-sell

Kevin Systrom and Mike Krieger became millionaires before the age of 30 by selling their start-up to Facebook for \$1 billion in 2012, giving the pair \$300 million in cash. The company was called Instagram and it had only 13 employees. Instagram is an online mobile photo-sharing, video-sharing and social networking service. Users can take pictures and videos, and share them on a variety of social networking platforms, such as Facebook, Twitter, Tumblr and Flickr. It is distributed as an app through the Apple App Store, Google Play and the Windows Phone Store and is supported by most mobile devices. Only two years earlier, the pair had secured seed funding with venture capitalists to work on the project, going 'live' shortly after. In 2011 they secured further funding that valued the company at some \$25 million. The following year a further round of fundraising valued it at \$500 million.

What Systrom and Krieger did was to link developments in technology and connectivity to unmet – perhaps even unthought of – customer needs. Systrom was a business management and engineering graduate and Krieger had studied symbolic systems, which combined computer science,

psychology and artificial intelligence with philosophy. They both used apps a lot and what they developed was a social media site where photos and videos – not words – could be easily uploaded, edited and shared with friends. Images are easier to generate than written words, and Instagram was the first app you could use to take photos and then instantly share them online. Some 65 million photographs are posted on the site every day and it has more than 200 million monthly active users. Instagram is famously used by the Kardashian sisters and Justin Bieber. Interestingly, in 2013, Instagram grew by 23%, while Facebook, its parent company, only grew by 3%.

□ Visit the website: <https://instagram.com>.

QUESTIONS:

- 1 What is involved in matching technology with unmet customer needs?
- 2 What are the pros and cons of an entrepreneur selling-on a successful business quickly rather than growing it to significant size – for the entrepreneur, the business and society?

Defining the entrepreneur

This book will look at many different types of entrepreneurs in different contexts. The Oxford English Dictionary defines an entrepreneur as ‘a person who attempts to profit by risk and initiative.’ But this definition, while emphasizing risk and initiative, could cover a wide range of professions, including that of a paid assassin. The difference is more than just one of legality. The question to ask is, how do they make profit? The notion of entrepreneur has been crafted over many centuries, starting with Cantillon (1755), and has seen many different emphases (see Table 1.2). Over 200 years ago Jean-Baptiste Say, the French economist, said: ‘entrepreneurs shift economic resources from an area of lower productivity into an area of higher productivity and greater yield’ (1803).

But where does the perception of the opportunity to shift these resources come from? There are two generally accepted explanations of where entrepreneurial opportunities come from – the Schumpeterian view and the Kirznerian view. In the Schumpeterian view, opportunities emerge out of the entrepreneurs’ internal disposition to *initiate or create change*. They are the innovators who ‘shock’ and disturb the economic equilibrium during times of uncertainty, change and technological upheaval. With Schumpeter the emphasis is on independent firm formation by entrepreneurs leading to this ‘creative destruction.’ By way of contrast, the Kirznerian view emphasizes opportunity recognition and implies that entrepreneurial profits are secured on the basis of *knowledge and information gaps* that arise between people in the market – called **information asymmetry** (Chapter 14) – all based within the general equilibrium or neoclassical model of economics, originally derived from Marshall (1890). In this view, entrepreneurs are alert, discovering opportunities by acting as an arbitrageur or a price adjuster in the marketplace. Kirzner’s work is based on that of Knight, who discussed entrepreneurship’s role in wealth creation with an emphasis on the ability to cope with risk and uncertainty. In the real world, both

“

I am often asked what it is to be an entrepreneur and there is no simple answer. It is clear that successful entrepreneurs are vital for a healthy, vibrant and competitive economy. If you look around you, most of the largest companies have their foundations in one or two individuals who have the determination to turn a vision into reality.

Richard Branson, from Anderson (1995), *Local Heroes*, Glasgow: Scottish Enterprise.

”

Table 1.2 The antecedence of modern entrepreneurship

| Date | Author | Concept of entrepreneur |
|------------------------------|--------------|---|
| 1755 | Cantillon | Introduced the concept of entrepreneur from ‘ <i>entreprendre</i> ’ (ability to take charge). |
| 1803, 1817 | Say | Emphasized the ability of the entrepreneur to ‘marshal’ resources in order to respond to unfulfilled opportunities. |
| 1871 | Menger | Noted the ability of entrepreneurs to distinguish between ‘economic goods’ – those with a market or exchange value – and all others. |
| 1893 | Ely and Hess | Attributed to entrepreneurs the ability to take integrated action in the enterprise as a whole, combining roles in capital, labour, enterprise and entrepreneur. |
| 1911, 1928, 1942 | Schumpeter | Envisioned that entrepreneurs proactively ‘created’ opportunity using ‘innovative combinations’ which often included ‘creative destruction’ of passive or lethargic economic markets. |
| 1921 | Knight | Suggested that entrepreneurs were concerned with ‘efficiency’ in the use of economic factors by continually reducing waste, increasing savings and thereby creating value, emphasizing their ability to cope with risk and uncertainty effectively and implicitly understanding the opportunity-risk-reward relationship. |
| 1948, 1952, 1967 | Hayek | Continued the Austrian tradition of analytical entrepreneurs, attributing to them capabilities of discovery and action, recognizing the existence of information asymmetry which they could exploit. |
| 1973, 1979, 1997, 1999, 2009 | Kirzner | Attributed to entrepreneurs a sense of ‘alertness’ to identify opportunities and exploit them accordingly. |
| 1974 | Drucker | Attributed to entrepreneurs the capacity to ‘foresee’ market trends and make a timely response. |
| 1975, 1984, 1985 | Shapiro | Attributed a ‘judgement’ ability to entrepreneurs to identify ‘credible opportunities’ depending on two critical antecedents – perceptions of ‘desirability’ and ‘feasibility’ from both personal and social viewpoints. |

Schumpeterian and Kirznerian approaches seem to be used by entrepreneurs – they both create and spot opportunities – and a few studies tell us when, how and by whom these approaches might be used (e.g. Craig and Johnson, 2006; Samuelsson and Davidsson, 2009). Indeed, Kirzner (2009) himself concluded that both approaches are needed to understand the nature of dynamic market processes.

Reconciling these views, we can say that entrepreneurs create value by exploiting some form of change – either shifting resources or, more directly, improving productivity. They can create this change themselves or spot it happening. In Chapter 4 we use the terms ‘create opportunity’ or ‘spot opportunity’ in our approaches to finding a business idea. Entrepreneurs can exploit change in technology, materials, prices or demographics. They provide an essential source of new ideas and experimentation that would otherwise remain untapped in the economy (Acs and Audretsch, 2005). We call this process innovation and this is an essential tool for entrepreneurs and one that creates wealth for an economy. We shall examine it in greater detail in Chapter 3. Entrepreneurs create new demand or find new ways of exploiting existing markets. They identify a commercial opportunity and then exploit it. They are agents of change. In essence, an entrepreneur is best defined by their actions:

An entrepreneur creates and/or exploits change for profit by innovating, accepting risk and moving resources to areas of higher return.

Notice that our definition says nothing about starting a new venture or owning the enterprise that exploits change. Entrepreneurs could undertake these activities for established, larger firms while remaining in salaried employment, content for the profits (and risks) of their work to go to their employers. We call them **intrapreneurs** and we shall look at them again in Chapters 3 and 19. Owner-managers own the business they manage. Sole traders are owner-managers. Managers of companies owning over 50% of the share capital, and thereby controlling the business, are owner-managers. The term is also used loosely when a small group of managers own and control the business. However, not all owner-managers are entrepreneurs.

Notice also that our definition does not say whether profit is maximized. Profit is not always the prime motivation for creating a new venture. For many people it is simply a badge of success and the attraction of being an entrepreneur lies in being your own boss, doing what you want to do rather than what you are told to do. Some people spot a business opportunity – a product or a service that they do not see offered in the market or a way of doing something better or cheaper. Some people might be frustrated by characteristics of current products or services being offered that does not meet their needs. Some people, just a few, have a genuine ‘eureka’ moment when they come up with a new invention or have an idea that can revolutionize an industry. Whatever the source of their business idea, they feel motivated to do something about it – perhaps wanting to make a lot of money on the way. What defines the entrepreneur is their willingness to act upon the idea.

In fact most new ventures do not grow to become the industry titans we discussed previously. More than 95% of small firms in Europe employ less than 10 people. Two-thirds employ only one other person. Academics recognize three start-up typologies:

- > **Salary-substitute firms** – firms that are set up that simply generate an income comparable to what they might earn as an employee (e.g. plumbers, store owners etc.).
- > **Lifestyle firms** – firms that allow the founder to pursue a particular lifestyle while earning an acceptable living doing so (e.g. sports instructors, artists etc.). In many cases self-employment is the conventional and accepted way of pursuing these life options.
- > **Entrepreneurial firms** – these are the ones that bring innovative ideas and ways of doing things to the market. They are set up to grow from the start. Research shows that small business founders from the first two typologies can be distinguished from entrepreneurial founders based upon their goals because they tend to focus upon providing family income and entrepreneurial founders focus upon growth and profit (Stewart et al., 1999). Within this

group, young firms with the highest growth have been called 'gazelles' by academics. They are few in number but have a disproportionate importance to national economies, particularly in terms of employment (Autio, 2007). We shall return to look at them in Chapter 3.

There are also the firms that fall in the middle, doing well but perhaps not growing rapidly or to any great size. They might fulfil a valuable economic need, but there is a limit to the size of the market they serve. Often the entrepreneurs launching these sorts of ventures go on to become **serial entrepreneurs** – selling-on the successful business and going on to grow another, capitalizing on their ability to start a new venture and creating personal wealth from their sale rather than from its operation. Many entrepreneurs in our Case insights start a number of businesses. As you can appreciate, entrepreneurs and the small firms they manage are not homogeneous. Some entrepreneurs are successful and some are not. Each small firm is different and every small firm is organic – it will change over time and in different circumstances.



Case insight Material Pleasures



Lifestyle firms

In her mid-forties, Julie Spurgeon graduated with a first class honours degree in ceramic design from London's Central Saint Martin's College of Art and Design in the summer of 2008. As part of her final project to design a range of tableware she had to seek critical appraisal from retailers and industry experts. One of the firms she contacted was upmarket retailer Fortnum & Mason, and they were sufficiently impressed to commission a range of bone china tableware, called Material Pleasures, that was launched in August 2009.

The trademark Material Pleasures, which goes on the reverse of each piece, is registered (cost £200), and Julie joined Anti Copying in Design (ACID), which allowed her to log her design trail as proof against copying. Julie has had to pay for tooling and manufacturing costs herself. The moulds cost £5000 and the factory in Stoke-on-Trent

required a minimum order of 250 pieces. The contract with Fortnum's involved exclusivity for six months. All this was funded with a £5000 loan from the Creative Seed Fund and a part-time job.

'In the future I'd like to continue creating specialist tableware, as well as handmade pieces. Material Pleasures stands for individual design, not big-batch production.'
(Sunday Telegraph, 12 July 2009)

□ Visit the website: <http://materialpleasures.net/>

QUESTIONS:

- 1 Would you agree that this is a lifestyle business? Is it likely to grow to a significant size?
- 2 What are the pros and cons of society offering training programmes, grants or subsidized finance for this sort of business – for the entrepreneur, the business and society?



Case insight AirAsia 1



Entrepreneurial firms

Former Time Warner executive Tony Fernandes set up Asia's first low-cost airline, AirAsia, in 2001 by buying the heavily indebted state-owned company from the Malaysian government for only 25p. He set about remodelling it as a short-haul, low-cost operator flying around Asia. It was the first low-cost airline in the Asian market, copying the idea from airlines in the West such as easyJet (see Case insight on page 173). The company expanded rapidly from a fleet of only two planes in 2002 to a fleet of over 180 planes flying to over 100 destinations and 22 countries by 2015. It created a completely new Asian market in low-cost air travel that is now enjoyed by millions of people.

In 2007, UBS research showed it to be the lowest cost airline in the world, with a break-even load factor of just over 50%. It achieves this through a crew productivity level that is triple that of Malaysia Airlines and an average aircraft utilization rate of 13 hours a day, involving an aircraft turnaround time of just 25 minutes. Now with hubs in Kuala Lumpur and Singapore, it has also established associate airlines in India, Japan, Thailand, Philippines and Indonesia.

□ Visit the website: www.airasia.com.

QUESTION:

- 1 How can governments encourage or facilitate this sort of entrepreneurial endeavour?



Case insight LED Hut



Serial entrepreneurs

Some entrepreneurs make a living from starting up new businesses and selling them on when they get to a certain size. They do not like large organizations and know what they are good at doing. Jonathan Ruff set up LED Hut in 2011. It sells a range of light products, including LED bulbs, mainly to trade buyers. By 2013 it had some 60 staff and made a profit of £750,000 on a turnover of £17 million. In 2014 he sold the company for £18 million to US retailer Batteries Plus Bulbs, agreeing to remain as CEO for two years. This was in fact Jonathan's fourth business venture. He started

at the age of 17, selling mobile phone accessories on eBay before starting other businesses that he sold-on.

'I like building things from scratch. When a company gets to near 100 employees or sales of £40 million, it isn't for me.' (*The Sunday Times*, 7 September 2014)

□ Visit the website: www.ledhut.co.uk

QUESTION:

- 1 What do you think motivates somebody to become a serial entrepreneur?

Notice also that our definition of entrepreneur says nothing about the purpose of exploiting change or the uses to which profit might be put. Some entrepreneurs have social or civic objectives and are willing to invest their own time and even risk their own capital for little or no financial return, with any profits generated being ploughed back to meet these objectives. They operate in social and civic enterprises and we shall return to them later in this chapter.

Defining small firms

You might argue that people starting up lifestyle and salary-substitute firms are not 'true' entrepreneurs because they are not motivated primarily by profit. But these small firms are the backbone of societies. That then begs the question of what is a small firm? As with the other terms, there is no uniformly acceptable definition of a small firm. Back in 1971, the Bolton Report (Bolton, 1971), which is usually held to be a definitive report on the state of small business in Britain at the time, made heavy weather of providing a statistical definition. Recognizing that one definition would not cover industries as divergent as manufacturing and service, it used eight definitions for various industry groups. These ranged from under 200 employees for manufacturing firms to over £50,000 turnover (in 1971) for retailing, and up to five vehicles or less for road transport. So many definitions clearly cause practical problems. What is more, definitions based on financial criteria suffer from inherent problems related to inflation and currency translation.

The European Commission coined the now widely used term 'small and medium-sized enterprise' (SME) and in 1996 defined it as an organization employing fewer than 250 people – a criterion that continues to be used for most statistical purposes. It defines these further categories:

| | <i>Number of employees</i> |
|--------|----------------------------|
| Micro | 0–9 |
| Small | 10–49 |
| Medium | 50–249 |
| Large | 250 or more |

The EU goes further to define the SME as having a turnover of less than €50 million and an annual balance sheet total of €43 million when it comes to establishing which SMEs might benefit from EU programmes, policies and competitiveness rules.

In the United States, the Small Business Administration sets small business criteria based on industry, ownership structure, revenue and number of employees. This is typically 500, although it can be as high as 1,500 in some industries.

Small firms in the UK

During much of the 20th century, the UK saw a decrease in the importance of small firms, measured in terms of the firms' share of manufacturing employment and output. The proportion of the UK labour force classified as self-employed was at its lowest point in the 1960s. It was no wonder that the Bolton Committee (op. cit.) concluded that 'the small firm sector was in a state of long-term decline, both in size and its share of economic activity'. Since the 1970s the situation has been reversed. Small firms have increased in importance, measured in terms of their number and their share of employment and turnover, and the number of small firms continues to rise, as does the number of people classified as self-employed. In 1979 there were only 2.4 million SMEs in the UK (see preceding definition). By 2014 this had grown to some 5.2 million.

UK business statistics are produced annually and are available online (www.statistics.gov.uk). In 2014 they showed that the number of businesses in the UK continues to increase, currently standing at some 5.2 million; 1.5 million (29%) were companies, 460,000 (9%) were self-employed partnerships and 3.3 million (62%) were sole proprietorships (Department for Business Innovation and Skills, 2014). Table 1.3 shows that 99.9% of these businesses were SMEs (all but 7,000) and they generated 60.1% of employment and 46.7% of turnover. However, while SMEs are the dominant form of business, the detailed statistics also show that 75.6% of all businesses in the UK had no employees (3.9 million). These comprise sole proprietors, partnerships with only self-employed partners and companies with only an employee/director. These businesses generated 17.3% of UK employment for their proprietors (4.3 million) and 6.6% of UK turnover (£231 billion). They have been the fastest growing form of business in recent years. Overall, the number of businesses with no employees has increased 68% (1.6 million) since 2000 – perhaps reflecting a preference to subcontract rather than take on full-time staff. These statistics reinforce the view that most UK small firms really are small, offering no more than self-employment. Most of these are probably lifestyle businesses. Few firms grow to any significant size. There are significant differences in start-up rates and growth rates for business according to gender and ethnicity. These issues are dealt with in Chapter 3.

There are also taxation (Value Added Tax – VAT) statistics that inform us about SMEs. These are produced annually and are available online from the Office of National Statistics in a series called 'Business Demography' (www.statistics.gov.uk). Information about VAT registrations and deregistrations is widely used as the best guide to patterns of change in the small-firm sector. They are also used in regional and local economic planning. However, these statistics measure only those firms that register for VAT, and because there is a relatively high registration threshold many very small businesses never register. Therefore, while changes in net stock of businesses provide valuable information on trends, the stock figures themselves are underestimates of the size of the business population.

The net change in business stocks is a figure that is often reported in national newspapers. It tends to be highly related to the state of the economy. Small firms are particularly vulnerable to economic changes because of their frequently precarious financing situation. In times when the economy is in

Table 1.3 UK businesses, employment and turnover, by size of business

| | Businesses ('000) | % | Employment ('000) | % | Turnover (£million) | % |
|---------------|-------------------|-------|-------------------|-------|---------------------|-------|
| Micro | 5,010 | 95.6 | 8,276 | 32.8 | 655,442 | 18.6 |
| Small | 195 | 3.7 | 3,807 | 15.1 | 514,895 | 14.6 |
| Medium | 31 | 0.6 | 3,075 | 12.2 | 476,864 | 13.5 |
| Large | 7 | 0.1 | 10,070 | 39.9 | 1,874,053 | 53.3 |
| Total | 5,243 | 100.0 | 25,228 | 100.0 | 3,521,254 | 100.0 |

recession there tends to be a net decrease in the stock of businesses and vice versa. The 1980s saw a large increase in the net stock of registered businesses, followed by decreases between 1991 and 1994. From 1995 onwards, net registrations have generally increased, with the numbers of companies and public corporations rising and sole proprietors and partnerships declining. The year 2014 saw a net increase of 96,000 registrations (2.26 million registrations – 2.17 million deregistrations), down from 108,000 businesses in the previous year (Office for National Statistics, 2014).

These statistics are also broken down by sector and region and do change. The highest registration rates tend to be in the ‘business administration and support services’ and ‘professional, scientific and technical’ categories, followed by ‘finance and insurance’ and ‘information and communications’. For many years London has tended to have both the highest registration and deregistration rates and Northern Ireland the lowest rates. One interesting point is that regions with high registrations also tend to have high deregistrations – an effect called ‘churning’. This indicates that high economic growth may cause or be caused by more firms coming into existence (higher registrations) at the same time as the resulting increased competition causing more firms to cease trading (higher de-registrations).

These VAT statistics have also been used to show that the most dangerous time for a new business is its first three years of existence. Almost 50% of businesses will deregister within that period – a statistic that remains fairly constant. This does not, of course, mean that the closures represent failure in terms of leaving creditors and unpaid debts. Most businesses are simply wound down. Some will close because the business ceases to be lucrative, others because of changes in the circumstances of the proprietor: death, retirement or changes in personal motivations. Some will simply close to move on to other, more lucrative opportunities. Indeed, many will start again and become serial entrepreneurs (Bosma and Levie, 2010; Hessels et al., 2010). This ‘churning effect’ of small firms closing and opening is part of the dynamism of the sector as they respond to changing opportunities in the marketplace and is why the net change in the stock of businesses is more important than the individual number of failures.

Cressy (2008) produced an interesting framework linking firm size, survival and subsequent growth. This predicted that smaller firms have a higher failure rate than larger firms but those that survive will then grow faster than larger firms – a prediction with strong empirical support. We shall explore this linkage through the lens of innovation in the next chapter.

Other studies have given an insight into the UK small firms sector. Small firms tend to have lower productivity than large firms, even in the same industry – a conclusion supported across Europe (Eurostat, 2009). Firms with fewer than 200 employees had 55% of the productivity (measured in value added per employee) of firms with 1,000 or more employees. In the computer and office machinery sectors, SME productivity is only one-third that of larger firms. These differences are largely because of lower capital backing. Research also indicates that SMEs have a disproportionately high number of ‘bad jobs’ with low pay and poor working conditions (McGovern et al., 2004) and higher accident rates (Walters, 2001). The availability of flexible working practices to encourage family-friendly working also appears arbitrary in SMEs (Dex and Smith, 2002). However, it would be wrong to characterize all SMEs as poor employers because there is enormous diversity of practice (Barrett and Rainnie, 2002; Ram and Edwards, 2003).



Case insight Amanti Cupcakes



UK start-ups

Tina Katsighiras started Amanti Cupcakes in 2013 selling sweet treats like cupcakes, brownies and scones through the social networking site Facebook – a low-cost way of testing out a business idea (Chapter 8). Working from her

home in Prudhoe in the north of England, she takes orders online and bakes them on the day they are ordered for, delivering them to local residents at night. She also supplies a number of shops and cafes after samples she gave them free quickly sold out. The mum-of-two decided to leave her clerical job and start up her own business after her father

Continued...

Continued from previous page...

suffered a stroke. One year later and the business is doing well, with up to 50 home deliveries every evening and six shops and cafes placing regular orders.

'I just got up one morning and realised that my life wasn't going to change unless I did something about it. I'm half Greek and come from a long line of successful chefs. I even trained in catering after leaving school.

I had always enjoyed baking and people had always come to me for birthday and Christmas cakes, so I decided to follow that route.' (www.hexhamcourant.co.uk 16 October 2013)

QUESTION:

- 1 How would you describe this sort of start-up?



Case insight Monkey Music



UK start-ups

Courtesy of Monkey Music



Angie Coates

Angie Coates' mother was a teacher and her father owned a small engineering firm. At the age of 11 Angie won a scholarship to study the oboe at the Guildhall School of Music and Drama in London, graduating with a music degree in 1988. She went on to become Head of Music at Thomas's London Day Schools. So, when she had a baby daughter it was only natural that she would want her to share her love of music. However, she

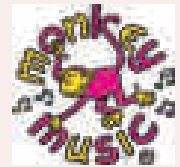
was not happy with the baby music classes she found locally, so in 1993, with her daughter only a few months old, Angie started her own business, Monkey Music, based in London. Monkey Music started out offering music classes to infants and pre-school toddlers from a church hall in Dulwich, southeast London.

'I was a young mum and ready to change my lifestyle completely. I wanted to stop having to get up at 6.00 am every day to then leave my baby with a childminder before travelling to work. I wanted to do something fresh and exciting, for my daughter and for me.'

By 1998 she was struggling with the huge demand for her classes and was teaching over 500 children a week, so, on the advice of her lawyer brother, she decided to franchise the music curriculum, taking a percentage of the fee charged by the franchisee (Chapter 9). The Monkey Music programme is divided into four stages, each tailored to specific age groups for babies and young children from 3 months: Rock'n'Roll, Heigh-ho, Jiggety-Jig and Ding-Dong. Each class will take up a maximum of between 10 and 15 children. Class fees average at around £7.50.

'We take children through a very specific and progressive curriculum which comprises of a vast repertoire of especially composed songs and musical activities. Our

curriculum supports all aspects of child development and classes are led by highly trained Monkey Music teachers. We start children very young so we support their social and emotional development as well as physical and language development ... Creativity is the most exciting part of Monkey Music.'



Monkey Music is widely recognized by the British franchise industry as an award-winning business, was winner at the British Franchise Association Franchisor of the Year Awards in 2005 and was a finalist in the same awards in 2010 and 2013. National parenting awards include winner of the Best National Pre-Schooler Development Activity in 2010 and 2013 and Best Toddler Development Class in 2008, with Monkey Music teachers winning numerous other parenting awards on a local level. Angie has decided not to dilute the product offering and to keep the product range simple and focused, with the website and teachers selling merchandise which extends the class experience: the soft Monkey and Baby Mo toys, class CDs and T-shirts. She feels that it is far too early to think of new product offerings.

By 2014 the business had nine staff based in Harpenden, just north of London. The network was generating sales of over £3 million. There were around 50 franchises with over 100 teachers running classes in more than 300 venues across the UK. The most successful franchise reported a turnover of £180,000 and profit of £70,000, and a significant number of franchises have remained under the same ownership for more than 10 years.

... And Angie now has five daughters.

□ Visit the website: www.monkeymusic.co.uk

QUESTIONS:

- 1 What were Angie's motivations in starting up Monkey Music?
- 2 How did she keep the costs of starting the business down?
- 3 How much of a risk did she face in starting and then growing the business?

Small firms around the world

SMEs are the backbone of the economies throughout the world. They are increasing in number in most countries, as is their share of employment. Almost 99.9% of enterprises in the EU are SMEs. They generated 67.1% of employment and 57.6% of GDP or manufacturing value added (Eurostat, 2008). They employed on average 4.3 people, varying between 12 people in Slovakia and upwards of 7 in Estonia, Ireland, Latvia and Germany, to less than 3 in the Czech Republic and Greece. SMEs are a vital part of all EU economies. They dominate many service sectors, particularly hotels, catering, retailing and wholesaling, and are important in construction. What is more, SMEs in the EU display many of the same characteristics as those in the UK. Most display modest growth rates and only about 50% survive beyond their fifth year.

In the USA, SMEs (less than 500 employees) accounted for 99.9% of businesses in 2011, 48.5% of employment, and in 2008 they contributed 46% of GDP. What is more, it is estimated that they generated 63% of new jobs between 1993 and 2013 (www.sbecouncil.org/about-us/facts-and-data).

An EU report (European Commission, 2008) comparing EU to US SMEs found that US SMEs were on average larger than EU firms, with proportionately fewer micro firms generating less employment. It observed that entry, exit and survival rates were roughly comparable and that the main differences with the USA were:

- 1 New firms expand more rapidly in the USA than in the EU;
- 2 New firms display a higher dispersion of productivity in the USA than in the EU;
- 3 The more productive firms in the USA have a stronger tendency to increase their market shares than those in the EU.

The report concluded that the US market was probably therefore more competitive than the EU and had fewer barriers to growth. It is interesting to view the conclusions of this report alongside those of another by Sanandaji and Sanandaji (op. cit.). They looked at the careers and backgrounds of some 1,000 entrepreneurs who founded new firms and earned at least \$1 billion between 1996 and 2010 – called ‘SuperEntrepreneurs.’ They observed that the proportion of SuperEntrepreneurs varied significantly across countries; Hong Kong had the highest, with about three SuperEntrepreneurs per million inhabitants, followed by Israel, the USA, Switzerland and Singapore. The proportion in the USA was roughly four times higher than in Western Europe. They noted what we already know, that self-employment does not necessarily lead to a growth business – our gazelles – observing that the USA had lower rates of self-employment than many other countries, for example Greece, Turkey, Spain, Portugal and Italy, and that self-employment in Silicon Valley is half that of the average of California. The implication is that policies aimed at encouraging self-employment do not necessarily lead to growth businesses, a topic we shall return to in Chapter 3.

The picture is much the same in other countries. Between 2007 and 2012, SMEs in Asia (less than 250 employees) accounted for 98% of businesses, 66% of employment and contributed 38% of GDP. It is estimated that 30% of Asia’s total export value was by SMEs, with 41.5% from China (Asian Development Bank, 2013). In all countries the importance of SMEs is growing.

The picture can be more complicated to assess in countries where there is a large ‘informal’ sector that is not recorded in official statistics, such as Africa. The International Finance Corporation (part of the World Bank) estimates that formal and informal SMEs in Middle East and North Africa (MENA) countries comprise some 80–90% of businesses in most MENA countries. Typically they account for 10–40% of employment, according to the official statistics. However, this is likely to be a significant underestimation because it is estimated that the typical non–Gulf Cooperation Council (GCC) MENA countries employ as much as two-thirds of labour informally. In GCC countries this is to be only 6% (http://www.ifc.org/wps/wcm/connect/1e6a19804fc58e529881fe0098cb14b9/IFC+Report_Final.pdf?MOD=AJPERES). These figures vary considerably from country to country. For example, in the UAE, SMEs account for 95% of businesses, 42% of employment and 40% of GDP (<http://www.go-gulf.ae/blog/dubai-sme-statistics/>).

Global Entrepreneurship Monitor (GEM)

GEM is a research programme which was started in 1999 in 10 countries. By 2013, it surveyed more than 197,000 individuals and approximately 3,800 national experts on entrepreneurship across 70 economies, representing an estimated 75% of the world's population and 90% of the world's total GDP. It is a harmonized assessment of the level of national entrepreneurial activity in each of the countries. This activity is the product of two things: entrepreneurial opportunity (demand) and entrepreneurial capacity (supply). The two are linked. Without opportunity the capacity is wasted, and vice versa. These are in turn influenced by a nation's culture, economic infrastructure, education and demography. The GEM survey categorizes entrepreneurs under three headings:

- > About to start up a business or have just done so within the last three months (nascent entrepreneurs) – the stage at which individuals begin to commit resources, such as time or money, to start a business or have already just done so;
- > Already own or manage a business that has been established and is under 3.5 years old, but where the business is generating income and paying salaries or drawings;
- > Already own or manage a business that has been established and is over 3.5 years old.

In addition, GEM identifies potential entrepreneurs by asking individuals if they expect to start a business within the next three years.

From this information a figure for total early-stage entrepreneurial activity (TEA) is calculated for each country as the proportion of nascent entrepreneurs and new business owner-managers (Figure 1.1). This is the measure of entrepreneurial capacity at any point of time – the propensity of individuals in a country to be entrepreneurial, given the social, cultural and economic conditions. Survey questions seek to understand the profile of TEA and how it is influenced by these conditions.

The 2012 UK GEM survey (Levie and Hart, 2012) was based upon over 11,000 working-age adults. It found that, for the first time since GEM began, almost one-quarter were engaged in entrepreneurial activity or intended to start a business within the next three years. The measured levels of entrepreneurial activity in the UK were generally higher than France or Germany, but lower than the USA:

- > The TEA was 9.8%, compared to a historical average of about 6.0% (2002–2010). This compared to 5.2% in France, 5.3% in Germany and 12.8% in the USA.
- > The level of nascent entrepreneurs was 5.7%. This compared to 3.7% in France, 3.2% in Germany and 8.9% in the USA.
- > The level of owner-managers (established under 3.5 years) was 4.3%. This compared to 1.5% in France, 2.1% in Germany and 4.1% in the USA.

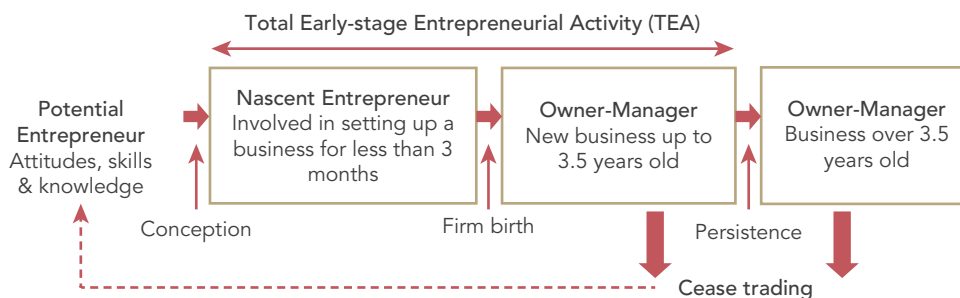


Figure 1.1 GEM entrepreneurship process and definitions

- > The level of owner-managers (established over 3.5 years) was 7.0%. This compared to 3.3% in France, 5.0% in Germany and 8.6% in the USA.
- > The proportion ceasing to trade in the last 12 months was low, at 1.0%. This compared to 1.2% in France and Germany and 2.8% in the USA.

GEM came up with some interesting conclusions about gender and race to which we shall return in Chapter 3.

GEM is an enormous research endeavour generating quantitative data that can be used for both cross-sectional analysis and, probably most importantly, longitudinal analysis, allowing us to track individuals from entrepreneurial aspiration ('nascent entrepreneurship') to action. Obvious methodological problems exist. For example, GEM does not attempt to measure differences in culture. Also the use of a single questionnaire across all the countries is clearly problematic. Nevertheless, data from GEM is increasingly being pored over by econometricians eager to find statistical relationships of any kind. GEM reports can be downloaded free of charge from www.gemconsortium.org.



Case insight Kiran Mazumdar-Shaw and Biocon



Millionaire entrepreneur

Born in 1953 in Bangalore, India, Kiran Mazumdar-Shaw is one of the richest women in India. She is the founder of Biocon, a biotech company and India's largest producer of insulin. With a degree in zoology, she went on to take a postgraduate course and trained as a brewer in Australia, ahead of returning to India hoping to follow in her father's footsteps as a brewmaster. Despite working in the brewing industry in India for a couple of years, she never achieved her ambition, finding her career blocked by sexism. Instead, in 1978, she was persuaded to set up a joint venture making enzymes in India.

Kiran Mazumdar-Shaw started Biocon India with Irishman Les Auchincloss in 1978 in the garage of her rented house in Bangalore with seed capital of only INR 10,000. It was a joint venture with Biocon Biochemicals, Ireland. Eventually she found a banker prepared to loan the company \$45,000 and, from a facility in Bangalore making enzymes for the brewing industry, started to diversify. It became the first Indian company to manufacture and export enzymes to the USA and Europe. This gave her a flow of cash that she used to fund research and to start producing pharmaceutical drugs. The early years were hard.

'I was young, I was twenty five years old ... banks were very nervous about lending to young entrepreneurs because they felt we didn't have the business experience ... and then I had ... this strange business called biotechnology which no one understood ... Banks were very fearful of lending to a woman because I was considered high risk.' (BBC News Business, 11 April 2011)

In 1989, Kiran met the chair of ICICI Bank, which had just launched a venture fund. The fund took a 20% stake

in the company and helped finance its move into biopharmaceuticals. Shortly after this, Unilever took over Biocon Biochemicals and bought ICICI's stake in Biocon India, at the same time increasing it to 50%. In 1996 it entered the biopharmaceuticals and statins markets. One year later Unilever sold its share in Biocon Biochemicals, and Mazumdar-Shaw bought out Unilever and was able to start preparing Biocon India to float on the stock market, which it did in 2004, with a market value of \$1.1 billion.

In 2003 Biocon became the first company to develop human insulin on a *Pichia* expression system. Since then it has obtained a listing on the stock exchange and entered into thousands of R&D licensing agreements with other pharmaceutical companies around the world. Today Biocon has a turnover in excess of INR 24,000 million. It has Asia's largest insulin and statin production facilities and its largest perfusion-based antibody production facility. It produces drugs for cancer, diabetes and autoimmune diseases and is developing the world's first oral insulin, currently undergoing Phase III clinical trials.

Kiran Mazumdar-Shaw has enjoyed many awards and honours. In 2010 *TIME* magazine included her in their 100 most powerful people in the world; in the same year the *Financial Times* had her in their list of the top 50 women in business. Passionate about providing affordable health care in India, she has funded the 1,400-bed Mazumdar-Shaw Cancer Centre, a free cancer hospital in Bangalore. Every year, she donates \$2 million to support health insurance coverage for some 100,000 Indian villagers.

QUESTION:

- 1 How typical is this story? What are the chances of becoming a millionaire by starting your own business?

Social and civic entrepreneurs

It was Bill Drayton who first coined the phrase social entrepreneur in 1972 when he helped an Indian named Vinoba Bhave redistribute land so that more farmers could become landowners, contributing to their local communities – a process that eventually resulted in some seven million acres of land being given away. Today, he is the founder and CEO of Ashoka, an organization that was created to help support, connect and build up social entrepreneurs and their ideas. Social entrepreneurs usually operate as entrepreneurs within organizations whose primary purpose is social rather than economic – called social enterprises. Sometimes they create these organizations themselves but sometimes, like an intrapreneur, they will operate as entrepreneurs within an existing social enterprise. A social enterprise operates in a commercial way to achieve its social objectives, and any profits it generates are ploughed back to help achieve them. It is often also about creating social change at a community level, normally through voluntary or community groups. In the UK this has a long history, from Victorian hospitals to the modern-day hospice movement. The legal forms a social enterprise can take are outlined in Chapter 9. Social Enterprise UK, a national body representing social enterprises, says a social enterprise must satisfy six criteria. It must:

- > Have a clear social or environmental mission set out in its governing documents;
- > Generate the majority of its income through trade;
- > Reinvest the majority of its profit;
- > Be autonomous of the state;
- > Be majority controlled in the interests of the social mission;
- > Be accountable and transparent.

Social entrepreneurs have many of the qualities of commercial entrepreneurs; in particular they are innovative, often creating change by doing things differently. They operate at the intersection of the public and private sectors, pulling together resources from both but always with the purpose of serving their social mission. They might also pull in resources from the voluntary sector. The social enterprises they create are often locally based, but could be national or international.

Pearce (2003) tries to explain this myriad of interlinking concepts by talking about three systems of the economy – private, public and social – delineated in two dimensions – trading/non-trading and global/community-based, shown in Figure 1.2. The first system is the private sector, which concentrates on trading, with the objective of profit maximization. But even this has its legal and illegal sectors. It operates on anything from a local to a global basis. The second system is public services and government, which operates in a planned, non-trading way. It is characterized as bureaucratic and inefficient. It also operates on anything from a local to a global basis. The third system is the social economy, which includes social enterprise, voluntary and charity organizations and the family economy. This is usually far more community-based and can be both planned and based upon market trading. The use of the word ‘system’, rather than sector, in this context is deliberate because it is meant to imply that each system is not homogeneous.

It was estimated that in 2012 there were approximately 70,000 social enterprises in the UK contributing £18.5 billion to the UK economy and employing almost a million people (Department for Business, Innovation and Skills, 2013). The GEM 2009 Social Entrepreneurship Report (Terjesen et al., 2009) showed that in the UK the highest level of social entrepreneurial activity is among the youngest age group (18–24 years) at 4.4% – a result that has persisted for a number of years. However it is the people in the oldest age group (55–64 years) that are most likely to be running established social enterprises (1.7% involvement). The report shows no significant difference between women and men, and states that those most likely to be social entrepreneurs belong to the mixed ethnic origin group (6.3%) and combined black African and black Caribbean



Social entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionized the fishing industry.

Bill Drayton, founder, Ashoka,
<http://www.architectsofpeace.org/architects-of-peace/bill-drayton>



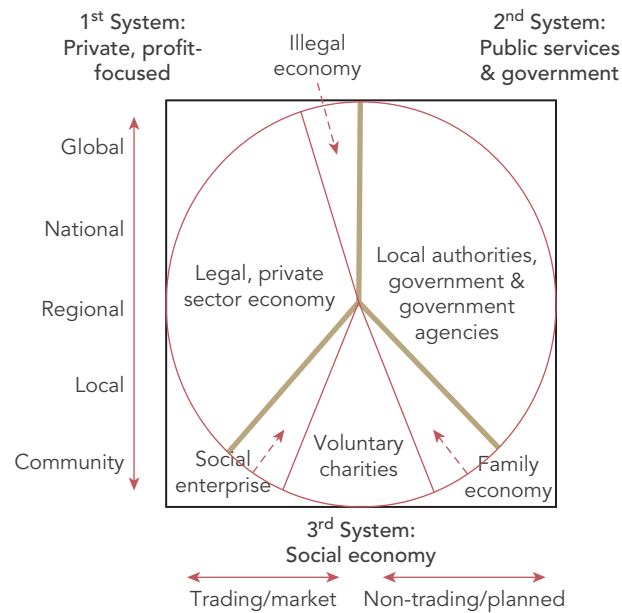


Figure 1.2 The three systems of the economy

Source: Adapted from Pearce, J. (2003) *Social Enterprise in Anytown*, Calouste Gulbenkian Foundation. Reproduced with permission.

group (7.5%) – all higher than the percentage of the white population who play a part in social enterprise. The GEM results should, however, be treated with caution because the definition of social entrepreneur is so broad that it includes anybody trying to start or manage any form of social, community or voluntary activity.

Civic entrepreneurs operate within larger civic organizations in the public sector, such as government, local councils, schools, health authorities and police forces. They are therefore more like intrapreneurs and, just like intrapreneurs, their freedom of action may be limited by the rules and regulations of the organization they work for. However, like social entrepreneurs, their primary aim is social rather than economic. The terms social entrepreneur and civic entrepreneur have often been used in an almost interchangeable way, but they are different. The link is through the voluntary, community and not-for-profit sectors that straddle the public and private sectors, often working on the delivery of government initiatives.

Conflicts within social enterprise

There are inherent conflicts within a social enterprise. The first is the conflict between its social and commercial operations. The objectives of a social enterprise can be ‘integrated’ with its commercial operations or ‘complementary’ to them. An integrated model is one where surplus-generating activities simultaneously create social benefit, with one objective not getting in the way of the other. The art of integration, according to Fowler (2000), is to ‘marry the development agendas with market opportunities and then manage them properly so that they are synergistic not draining’. Two examples of integration are the Grameen Bank (see Case insight on page 21) and the Big Issue (Case insight on page 80.). All too often, however, this is not the case and the one agenda ‘contaminates’ the other, perhaps leading to reduced efficiency and effectiveness on the commercial side or dilution of the social objectives on the other. When surpluses from the commercial activity are simply used as a source of cross-subsidy for the social objectives, rather than producing social benefits themselves, this can more accurately be called complementary social entrepreneurship.



Case insight Grameen Bank



Integrated social enterprise

Grameen Bank – meaning ‘bank of the villages’ in the Bangla language – was set up in Bangladesh in 1976 by Professor Muhammad Yunus, who originally set up a research project to study how to design a credit delivery system to provide banking services to the rural poor. In 1983 it became an independent bank. Grameen Bank provides tiny loans, called microcredit, without collateral to the poor. The aim is to leverage their skills to help them start and grow tiny businesses. It uses a local, group-based approach – called solidarity lending – to ensure that borrowers repay their loans and develop a good credit history. Each borrower belongs to a five-member group. The group is not required to give guarantees for loans to its members, and repayment is solely the responsibility of the individual borrower. However, the group and the centre ensure that everyone behaves responsibly and individuals do not get into arrears with their repayments. Of its borrowers, 96% are women.

Borrowers are encouraged to become savers, and the bank also accepts deposits. It also provides other services and runs several development-oriented businesses including fabric, telephone and energy companies. It seeks to establish a new sort of self-sustaining rural association that reduces dependency on external finance, increases development impact and spreads risk. Funding has come from different sources. Initially, donor agencies provided the bulk of capital at low interest rates but, by the 1990s, the bank was getting most of its funding from the central bank of Bangladesh. In 1976 Professor Yunus received the Nobel Peace Prize. The success of Grameen Bank has inspired similar projects in more than 40 countries around the world.

QUESTION:

- 1 How many stakeholders, each with different objectives, have to be brought together for this bank to operate effectively?

The second conflict arises around the issue of democratic accountability. It occurs particularly when the activities of the social enterprise are not integrated. A social enterprise operates at the boundary between public and private sectors, and there is an inherent conflict in the values and beliefs of the two sectors. The issues relating to social enterprise revolve around its commercial efficiency and effectiveness on the one hand and its democratic accountability on the other. There are difficulties with accounting for the two objectives and in particular making trade-offs between the two. It is the old issue of whether the (commercial) means always justify the (social) ends. It is therefore imperative for a social enterprise to decide on the core mission and realize what is peripheral – a means of achieving the ultimate mission. Unless this happens, social enterprises can avoid rigorous monitoring and democratic accountability. But this begs the question of who decides on the core mission, and how ‘performance’ in meeting the mission might be measured. The complex nature of the stakeholders’ interests in most social enterprises means that these issues can be ‘fudged’ and are often the result of political influence. The danger particularly occurs when public funds are involved. Where these are channelled through another organization there is always the possibility of commercial gain, and without clear performance criteria and democratic accountability there is no way of knowing whether the public got value-for-money.

Fowler (op. cit.) was concerned about these conflicts, noting particularly that it is a risky framework for the development of recipients of international development aid – non-governmental organizations (NGOs). These organizations handle large amounts of public money. He doubted that they can handle the conflicts between social and commercial behaviour. He argued that retaining their moral underpinning and inspiration is vital and any involvement in income-generating activities will compromise this. He also feared that the social enterprise framework is not sustainable because they are so dependent on government aid. There is also the concern about what entrepreneurial activities the large amounts of public money they receive might be put to. Fowler is therefore more in favour of ‘civic entrepreneurship’, which he sees as providing ‘civic, as opposed to public, legitimacy and economic viability from a broad base of citizen support’.

The third conflict concerns the nature of the objectives a social enterprise is set up to achieve. These may be clearly non-political, for example Jamie Oliver's Fifteen restaurant group and Cafédirect in the UK. However, they may also be seen as ways of encouraging some sort of 'social engineering', often originating from a government policy initiative. For example, the UK government has encouraged the formation of social enterprises for the delivery of services such as health and social care, fostering and adoption, transport and recycling – areas that traditionally have been seen as the responsibility of the public sector. This is partly because social enterprise is seen as innovative and efficient, but it is also partly as a way of getting extra, non-government funding into the service and, in extremis, can be seen as 'privatization'.

There are always lessons to be learned when the activities and approaches of one sector are compared to another, not least in a public sector that is often seen as overly bureaucratic. Eikenberry and Kluver (2004) acknowledged the need for the public sector to work with not-for-profit, community and voluntary organizations, observing that 'they are more than just tools for achieving the most efficient and effective mode of service delivery; they are also important vehicles for creating and maintaining a strong civil society'. Alexander et al. (1999) underlined the importance of their role as 'schools or laboratories of democratic citizenship' – training grounds for citizenship that involve people in socially beneficial activities that they would not otherwise engage in. However, sometimes politicians can use social enterprise as a way of forcing change on the public sector, and not always for the best reasons.



Case insight The Entertainer



A family business with values

Gary Grant bought a toy shop in the small town of Amersham in England in 1981. Today, The Entertainer is a UK-wide chain of stores with a turnover of £140 million and profits of over £7 million and plans to open franchise chains worldwide. It already has over 100 shops in the UK as well as two in Pakistan and one in Azerbaijan, selling a wide range of toys from Lego and all things *Frozen* to loom bands. Stores are sited in prime, high foot-fall, high-street locations and the average customer spend is only about £10. At a time when many UK retailers have seen sales stagnate, sales for The Entertainer continue to climb, and 20% of sales are now online.

The company is 100% family-owned, with headquarters close to Gary's home in Amersham. Gary is a committed

Christian and gives 10% of profits to charity. He has been known to gather his staff together in prayer in troubled times, but more recently they have shared in generous bonuses – £1.5 million in 2014 – on top of awards for completing training hurdles or giving good customer service.

'In everything we do faith is central to our decisions. We have got the ability to put back into society. We pay UK taxes and don't dodge around it unlike some high-street names. There are no staff on zero hours contracts or profits siphoned into off-shore tax havens.' (*The Guardian*, 7 April 2015)

QUESTION:

- 1 How difficult is it to run your own business and maintain strong social and ethical values?

Sustainable entrepreneurship

The boundary between the public and private sectors is continually changing, and social enterprise is often at that boundary. However, private companies can also act to achieve social good. Indeed, as we shall see in Chapter 9, the legal formation of a social enterprise can be cumbersome and there are some pragmatic advantages to remaining a sole trader or private company, not least the avoidance of public accountability. There is a long history of entrepreneurs with social motivations – from the chocolate maker J. Cadbury & Sons with its Quaker values, to the jam maker Wilkin & Sons. More recently companies like Lush and Timberland have managed to combine business and social values successfully – and in the process enhance their brand image. But always the commercial objective came first, and always the entrepreneurs decided on the social mission and how it was to be met.

Another approach to this issue in recent years has been the emergence of what has become known as **sustainable entrepreneurship** – where issues of CSR, sustainability, ethics and good corporate governance are at the core of a ‘for-profit’ commercial enterprise. Entrepreneurship that emphasizes joint economic and ecological value creation only has been called **environmental entrepreneurship**, **eco-entrepreneurship** and **eco-preneurship**.

Sustainable entrepreneurship is about meeting the needs of today through profit without prejudicing the future. Porter and Kramer (2011) defined it as a ‘unique’ concept whereby sustainable business strategies focus on increasing both social and business value, broadening the scope of a business from more profit-driven goals to the creation of joint benefits and ‘shared value’. These strategies are part of the overall strategy of the company – not just an ‘add-on’ – and come from its very reason for existence – its mission. Schaltegger and Wagner (2011) said that entrepreneurs who are sustainability-driven within their core business and contribute towards sustainable development can be called sustainable entrepreneurs. Kalam and Singh (2011) saw sustainability as having six dimensions:

- > **Economic** – implying that the core business model is commercially sound and robust and the development tools are based upon the core competencies of the region;
- > **Technological** – implying that technology will be the driving force behind the development tool;
- > **Social** – reflecting the belief that the enterprise must partner with the local community and facilitate building capacity and improving living standards, rather than treating community members just as customers;
- > **Environmental** – implying that the wide range of environmental issues such as reducing waste and pollution, protecting biodiversity, preserving natural resources etc. are all taken into account and the business should aim to have a beneficial or at least neutral effect;
- > **Value** – implying that the development should be accompanied by the creation of a value-based society that reduces social conflict;
- > **Learning** – implying that the development should create an infrastructure that facilitates learning and the transfer of knowledge, thereby encouraging innovation.

In sustainable entrepreneurship, innovation is aimed at finding ‘efficient sustainable solutions for the most pressing problems of the world’ (Weidinger et al., 2014). This might involve searching for new products, services or processes that alleviate poor social or environmental conditions, make more efficient use of energy and other natural resources, or harness otherwise underused resources that are in greater abundance, cheaper to produce or less harmful to society.



Case insight SBA Hydro



Sustainable entrepreneurship

SBA Hydro and Renewable Energy Private Limited develops and operates micro-hydro power plants, providing hydroelectric power to villages in the Himalayan Belt of northern India. These villages have, in the past, suffered long periods of blackouts and relied on polluting diesel generators for much of their power needs. SBA’s customizable, flexible-use turbines harness the underused resources of fast-flowing Himalayan streams to produce clean energy. Working with the Indian government, the company adopts a cooperative-based approach to implement these projects, finding employment for many who would otherwise remain unemployed. It trains local staff to plan, construct, operate

and maintain the stations, employing about 10 locals at each plant. SBA funds the building and development of the station and, after a period of 10 years, transfers the station fully to the local community. SBA also sells the electricity it produces to the national grid. After meeting their own energy needs, villages can feed the surplus energy to the state utility for use by towns and by bulk industrial and commercial consumers. This earns them much-needed revenue to ensure their own development.

QUESTIONS:

- 1 Is this an example of sustainable enterprise? Explain.
- 2 How does it differ from Grameen Bank?



Case insight Goodone



Social or private enterprise?

Goodone Nin Castle and Phoebe Emerson met at Brighton University in 2001. Both Nin and Phoebe were doing fashion courses and they talked about setting up a fashion business but were uneasy about some of the ethical and environmental issues relating to the industry. Two million tonnes of clothes are sold annually in the UK, of which one million will end up in landfill sites when half of it is reusable. It was while at a nightclub in 2003 that they came up with the idea of Goodone. The idea was to design and produce innovative, quality, one-off clothing which was made from hand-picked, locally sourced, recycled fabrics. They called it 'up-cycling', 'innovatively combining new British and sustainable fabrics with reclaimed textiles'. They wanted to change perceptions of what recycled clothing can be by creating garments which did not look recycled.

Starting with only £1,000, in 2005 they made a deal with a local charity shop that allowed them to go through all the bags of textiles that were being sent to the rag factory at the cost of £1 a bag. They also acquired a disused car showroom in Brighton – a large open space into which they put two makeshift beds and a couple of second-hand sewing machines – and started their business:

'We had no funding, were living on housing benefit and doing part-time jobs to try and get the business up and running. In 2006 our first customers were local boutiques. We were full of enthusiasm and rather naive as we really thought that our tiny business could make an impact on the huge fashion industry.' (Nin Castle, *Daily Telegraph*, 5 February 2009)

Nin did the design work and Phoebe looked after the business side, both working on the manufacturing. Within

a few months they decided to go on a three-day 'Creative Business' start-up course run by the National Council for Graduate Entrepreneurship (NCGE) and registered Goodone as a company. After a year in the car showroom, they relocated to Hackney in London so as to be in the 'fashion hub' of the UK. They also set up their own online shop.

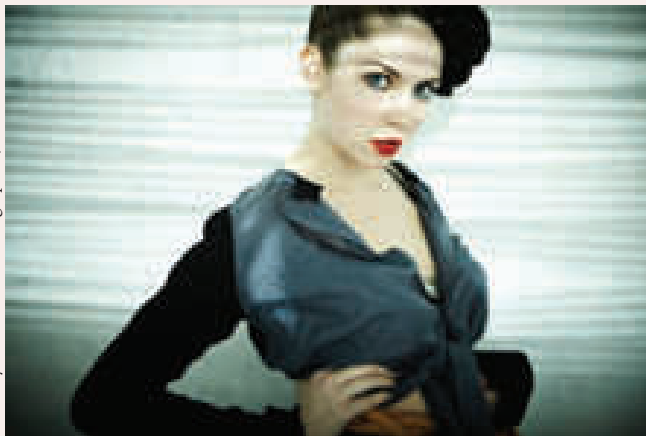
In 2007 they won a £15,000 prize from NCGE, much of which was spent on repairing the sewing machines. However, the prize also generated a lot of free PR, and articles

about the company appeared in the national press. These stimulated sales – Goodone fulfilled orders for clothes from the cult shop 'Side by Side' in Tokyo, Japan – and created more opportunities. They exhibited at the 'Fashion Made Fair' sale in Brick Lane, London, 'The Clothes Show Live' in Birmingham and the 'Margin' trade show in London, and started giving presentations to the London School of Fashion. They were awarded Manufacturing Advisory Service funding to develop the Goodone product line and brand and a London Development Agency SME Innovation Award, which gave them manufacturing consultancy from the London College of Fashion. Normally, lengths of cloth are sent to the manufacturer, but with recycled fabric every piece is different and that creates special problems. Goodone also began outsourcing some manufacturing to HEBA Women's Project, a London charity.

In January 2008 Phoebe amicably left the company to work in other areas of social enterprise and since then has become a lawyer working in the human rights field. Nin then went on to produce charity T-shirts by recycling old campaign T-shirts from Greenpeace, Shelter, Amnesty, Liberty and WWF. She spent August 2009 in South Africa working for the Tabeisa Project, designing and producing clothes in a township outside Cape Town for sale in the UK.

Goodone's mission statement sets out their aims:

'Goodone design and produce innovative, quality, one-off clothing which is made from hand-picked, locally-sourced, recycled fabrics. We aim to exceed people's expectations of what recycled clothing can be by creating



Courtesy of Goodone, Photographer Jessica Bonham

Continued...

Continued from previous page...

garments which don't look obviously recycled. Instead of "reworking" or "customising" existing pieces we design for production. Using our specialist knowledge in the deconstruction and reconstruction of garments, sustainable sourcing and production we are able to create a limitless amount of new clothing from old, which, dependent on the combination of coloured, patterned and textured fabrics chosen, will inherently always remain unique. This means we are able to mass-produce the one-off.

By using these recycled materials we are not only providing a creative and sustainable solution for waste reduction but also minimising energy use and the damage to environment caused by the production of new clothing. It is our goal to continue to build a reputable brand which is internationally recognised for pioneering the production of high-quality, innovative 'recreated' clothing, secondly, provide specialist consultancy, working with, instead of against, existing brands and retailers to solve their own waste issues, consequently impacting the industry on a bigger scale, and thirdly, to educate the next generation of fashion designers, entrepreneurs and consumers on the urgency and methods for designing, producing and consuming sustainably.'

Goodone's summer 2010 collection was shown at London Fashion Week and was offered at Topshop's website and flagship Oxford Street store. In the same year, Clare Farrell joined the Goodone team as co-designer. By 2014 Goodone was supplying outlets in London, Manchester, Brighton and Glasgow in the UK and internationally in Germany, USA, Switzerland, Canada and Spain. They were also selling from their website. The turnover is modest. Goodone employs part-time staff and makes use of interns. Both Nin and Claire also teach at fashion colleges and Goodone's income gets ploughed back into the business. Goodone is an example of a business with social objectives and one that has made the most of grants and support that are available to young enterprises.

□ Visit the website: www.goodone.co.uk.

QUESTIONS:

- 1 Is this a social enterprise or just a socially ethical business?
- 2 Is Goodone successful? How do you measure this? What does money measure in this business?
- 3 Was it right that Nin and Phoebe should have been able to make so much use of grants and support?

Summary

- › We are living in an age of uncertainty characterized by continuing, unpredictable and rapid change – change that is both incremental and discontinuous. It is an increasingly complex world full of interconnections formed by a global market place linked by technology allowing instant communication.
- › While large firms find this environment challenging, small, entrepreneurial firms have thrived and, while their contribution to economic prosperity has become recognized, many entrepreneurs have become millionaires.
- › The key to this success has been the ability of entrepreneurs to work with change to recognize and create opportunities.
- › Entrepreneurial management is characterized as being a social activity that has a different approach to dealing with risk and uncertainty. Successful entrepreneurs generate strong relationships with stakeholders that allow them to mitigate risk and maintain flexibility of action. They develop strategy differently, creating strategic intent but maintaining a loose, flexible strategy and continuously strategizing and creating as many strategic options as possible.
- › Entrepreneurs are defined primarily by their actions. They create and/or exploit change for profit by innovating, accepting risk and moving resources to areas of higher return.
- › Small, entrepreneurial firms are a vital part of the economies of most Western countries; 95% of the wealth of the USA was created since 1980. SMEs generate 50% of GDP in the USA, and over 25% in the UK. In the EU they generate 67% of employment. But it is the fast-growing 'gazelles' that generate most of the employment growth.
- › A small and medium-sized enterprise (SME) is one with fewer than 250 employees. A micro business has up to 9 employees, a small business up to 49 employees and a medium-sized business up to 249 employees.
- › Until the 1960s the UK saw a decrease in the importance of small firms, although since the 1970s this has been reversed. SMEs are now an important part of the economies of all countries around the world. They generate significant employment and wealth. Nevertheless, most small firms in the UK are unlikely to grow to any size.

- › A social enterprise operates in an entrepreneurial way to achieve social objectives, and any profit is ploughed back into the enterprise to help achieve them. They operate at the intersection of the public and private sectors – in the social economy.
- › There can be conflicts within a social enterprise: between its social and commercial operations; around the issue

of democratic accountability; and in the nature of the social objectives it is set up to achieve. Social enterprise can be seen as a way of diminishing the responsibilities of the state.

- › Sustainable entrepreneurship is where issues of CSR, sustainability, ethics and good corporate governance are at the core of a 'for-profit' commercial enterprise.

✓ Activities

- 1 Write a report that critically analyses the changing commercial environment and how it impacts on entrepreneurship.
- 2 Research and write a report on the background and history of an entrepreneur who set up their own business and grew it successfully.
- 3 Update the statistics on small firms in Britain and in the EU. Alternatively, obtain similar statistics on the performance of small firms in your country. What does this tell you about recent developments? Summarize your findings in a report.
- 4 Access the latest GEM report for your country and summarize its findings in a report.
- 5 Research the history of a successful social enterprise and outline the reasons for its success in a report.

🗨️ Group discussion topics

- 1 Is now a good time to start your own business?
- 2 Do you dream of starting your own business? If so, why? If not, why not? What do you think will be the main challenges you would face?
- 3 List the pros and cons of running your own business.
- 4 What are the main challenges facing a start-up today?
- 5 Do you think the definition of an entrepreneur in this chapter is adequate?
- 6 How does an entrepreneur differ from an intrapreneur or a social entrepreneur?
- 7 Is an owner-manager of a small firm automatically an entrepreneur?
- 8 How does the management of a small firm differ from the management of a large one?
- 9 What are the characteristics of small firms that distinguish them from large firms and what are these implications? Do they mean that small firms really are sufficiently different to warrant special study?
- 10 Are small firms sufficiently homogeneous to justify special study? What further segmentation or classification might you suggest and what are the special and different characteristics of these segments?
- 11 Are all small firms worthy of special treatment? If so, which small firms and what sort of special treatment?
- 12 Why has the number of small firms been increasing in the UK since the late 1960s?
- 13 Is it good that so many businesses close in the first three years?
- 14 Should arts students who want to be self-employed be taught entrepreneurship?
- 15 Should all students at university be taught entrepreneurship?
- 16 What are the real defining characteristics of a small firm?
- 17 What are nascent entrepreneurs? What does their number tell us that start-up statistics do not?
- 18 Does social enterprise diminish the responsibilities of the state?
- 19 Are you content to see public money going to social enterprise? Explain.
- 20 Would you prefer to be a social entrepreneur, a commercial entrepreneur with social values or a sustainable entrepreneur? Explain.

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