

# Introduction

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Entrepreneurs and small businesses of today are living in a world marked by major transitions.

However, the current transitions in society are viewed through different lenses and thus a diversified and complex puzzle of images of the changing world are delivered to the research community, to entrepreneurs and to the small business community. In fact, major transitions are brought to life by entrepreneurs themselves, since they play a major role as agents of change.

The globalizing society is a stream of created images. The knowledge society is another, and yet others emphasize the digital revolution with the many images of what is to come.

While entrepreneurs are to be seen as vehicles of change, they are also caged by these transitional changes. The process of setting up new enterprises and making them grow and prosper is a far more complex undertaking today than just a few decades ago.

In Europe, as well as in other parts of the world, the sluggish economic perspectives have, at the same time, turned public awareness towards small businesses as vehicles of growth. The same wishful thinking is associated with the potentialities of entrepreneurial ventures.

Research in entrepreneurship and small business management has therefore received increased attention in order to understand better the role played by entrepreneurs and new businesses in bringing about growth and – not least – in order to gain improved insight into the logic of small business management in times of high complexity and turbulence. What can a wider community learn from their ways of organizing and managing new ventures and growing enterprises?

The increased focus on and importance of small and medium-sized enterprises (SMEs) for the renewal of the industrial structure have influenced entrepreneurial research. The field of entrepreneurship and small business studies has prospered and grown considerably during the past few years in all European countries. Remarkable developments have taken place in research frameworks and methodologies. The fundamental scientific discussion continues to unfold new theoretical perspectives as well as new

aspects of the discipline. Simultaneously we have witnessed entrepreneurship research enter into new emerging fields. The field of globalization and the corresponding theme of Born Global entrepreneurs, and also the field of institutional entrepreneurship, are cases at hand illustrating important fields of expansion.

Progress in the field of entrepreneurship is not only triggered by the exchange of ideas and new analyses inside the research community. It is also triggered by the growing emphasis on entrepreneurship in policy agendas and business communities all over Europe. It has stimulated dialogue between the research community and communities of practice.

RENT XVIII in Copenhagen in November 2004 was organized to stimulate dialogue and reflections on progress in the field of entrepreneurship. The RENT conference in Copenhagen presented a programme comprising 161 papers organized in 38 sessions within the 17 RENT streams. Through a thorough review process of all contributions ten papers were selected and revised to be included as chapters in the present volume.

## INTRODUCTION TO THE THEMES AND THE CONTRIBUTIONS

The chapters included in this volume explore three themes, representing different dimensions and images of the overall theme of complexity and change.

The first theme is institutional boundaries. A major emphasis in this theme is on how entrepreneurs cope with the institutional setting in which they are embedded, and also how entrepreneurs play the role of change agents in a wider societal meaning of the concept, thus fostering changes in institutional boundaries.

In the second theme – evolutionary perspectives on performance – studies on entrepreneurial performance are in focus. Different factors influencing performance – experience, ownership status, initial size and line of industry, for example – are analysed in a time perspective.

In the third and final theme – managerial complexity – the contributions analyse several dimensions of managerial complexity. All contributions, in one way or another, reflect on themes highlighting managerial and organizational complexity in a changing context. Focus is put on the theme of managing internationalization in new businesses, the challenge of innovation management, knowledge acquisition and knowledge management in small firms.

## INSTITUTIONAL BOUNDARIES

Chapter 6 by Ted Fuller and Lorraine Warren – ‘Complex explanations of order creation, emergence and sustainability as situated entrepreneurship’ – has the aim of improving our understanding of the dynamics of entrepreneurship and those mechanisms leading to the formation of new ventures in specific contexts.

A model of the situated processes of emergence is proposed, based on the theoretical framework of complexity analyses. This model is grounded in the two case studies included and the theoretical framework outlined. The chapter illustrates how the entrepreneurs’ engagement in reflexive interactions with actors in their network of relations, as well as inside the enterprise, shape emergent structures and images of the ‘enterprise in context’.

A significant outcome of this contribution is a new and more faceted explanation of entrepreneurial emergence, emphasizing the situated dynamics of entrepreneurial processes. It is demonstrated that the results of entrepreneurial activities are complex (non-deterministic) and pre-equilibrium.

The authors conclude their chapter with reflections on limitations in their empirical foundation and suggestions for further research.

The ambition in chapter 7 – ‘Extreme entrepreneurs: challenging the institutional framework’, by Bengt Johannisson and Caroline Wigren – is to reconstruct the entrepreneurial subject with the help of institutional theory.

Johannisson and Wigren argue that, while institutions are seen to provide the rules of the game and also, in the mainstream of research contributions, are seen to define the appearance of entrepreneurial activities in society, rule breaking is a fundamental characteristic of entrepreneurship. However, although rules may be broken, at the same time they also cage or limit entrepreneurial action.

However, a few entrepreneurs act as agents of institutional change and thus do challenge fundamental established institutions by their creative way of organizing activities and actions. In this contribution four change agents from different arenas in society are introduced and portrayed. They are all living examples of what the authors call ‘extreme entrepreneurs’. Extreme entrepreneurs are conceptualized as public persons, visible in the media and in public settings far beyond their professional community.

Based on the portraits of the four extreme entrepreneurs, the authors search for the phenomenon that constitutes the extreme entrepreneur *per se*. A list of six different characteristics are outlined, reflected on and discussed.

In the concluding section of the contribution, the agenda for studying extreme entrepreneurs is briefly outlined. It is argued that this stream of research has importance, since the study of extreme entrepreneurs may highlight mainstream understanding, theorize on entrepreneurial action

and make us better understand the lack of entrepreneurship in specific markets or national and local cultural spheres and contexts.

Nils Månsson and Hans Landström develop a typology of business angels in chapter 9, 'Business angels investing at early stages: are they different?' The authors have based their study on a large database in order to find an empirical foundation for the typology.

In the typology outlined, the authors make a distinction between early-stage and late-stage investors. They find that early-stage investors believe that knowledge of the entrepreneurial process is most important, and late-stage investors believe that personal experience of the specific industry or technology is the most important.

Based on their empirical data material the authors conclude that early-stage investors are relatively more entrepreneurial and also less passive in providing managerial knowledge to the enterprises they invest in, than is the case for late-stage investors. The latter are, on their side, more adverse to risks than early-stage investors. Early-stage investors, on the other hand, seem to be more oriented to investments in ventures on their local scene.

Based on their study the two authors discuss institutional differences between Sweden – also representing several continental European countries – and the institutional framework in the US and the UK.

However, the basic theoretical contribution from the study is that it is established that there are two distinct groups of business angels. They find differences in motives, in their way of handling risk and also in their target ventures for their investments.

## EVOLUTIONARY PERSPECTIVES ON PERFORMANCE

In chapter 2 by Gry Agnete Alsos, Lars Kolvereid and Espen John Isaksen – 'New business early performance: differences between firms started by novice, serial and portfolio entrepreneurs' – differences in performance of new enterprises started by three types of entrepreneurs are analysed. The three types of entrepreneurs are novice, serial and portfolio entrepreneurs.

The aim of the study is to explore whether firms owned by the more experienced entrepreneurs – the serial and portfolio business founders – perform better than those founded by novice and inexperienced entrepreneurs.

The underlying proposition is that experienced entrepreneurs have gained learning from former ventures. Therefore they may be better off in identifying and judging viable business opportunities, acquiring resources and utilizing available resources, for example.

The authors specifically focus on the acquisition of resources for the new venture and also on the impact on business performance.

The study is based on an imperial investigation. Data were collected from founders of new businesses shortly after they were established. Data were again collected 19 months after the first survey.

The authors' conclusions from their analyses indicate that experienced founders are superior in the acquisition of resources *vis-à-vis* novice entrepreneurs and that this is also the case for their relatively higher performance in relation to novice entrepreneurs.

As indicated in the title of chapter 4 – 'The evolution of firms created by the Swedish science and technology labour force, 1990–2000' – Frédéric Delmar, Karin Hellerstedt and Karl Wennberg investigate evolutionary traits among firms started and owned by people from the science and technology labour force in Sweden in the 1990s.

It is suggested that the science and technology labour force is in a position of high access to new technological knowledge. The economic behaviour of the science and technology labour force – not least the entrepreneurial activity among members of the group – is seen as an important link in the explanation of how new technological knowledge is exploited and converted into growth.

Therefore this study takes interest in understanding the magnitude of the entrepreneurial activities among members of the science and technology labour force and how these activities are related indicators of growth.

The study is based on register data from Statistics Sweden and comprises more than 7700 *de novo* enterprises started in the period of time in focus. The main focus of the study is on entry, survival (and exit) and growth in employment among *de novo* firms included in the data material.

Main results from the study show that industry affiliations, the legal form of the enterprise and its size at the start of the venture have long-lasting effects on survival and growth. However, it is also concluded that the economic impact of the new enterprises is limited.

The chapter is concluded with theoretical as well as practical implications of the study. It is emphasized that the study has led to new insights in relation to endogenous growth theory, entrepreneurship theory and industrial organization theory.

Practical implications outlined include such issues as the need for entrepreneurial activity among members of the science and technology labour force, the role of career patterns among science and technology personnel and the role of incentives to promote entrepreneurial activities. Finally, policy perspectives are discussed.

Chapter 1 by Leona Achtenhagen, Jenny Helin, Leif Melin and Lucia Naldi entitled 'One decade later: following up the "Gröna Kvisten"'

prize-winning growth firms' is based on the ambition to expand the knowledge of continuous growth processes.

Quantitative studies have undoubtedly added to our understanding of growth in SMEs. However, there is a lack of more qualitative studies to expand our understanding of what happens in companies during growth processes. This study is a qualitative investigation in growth processes.

The empirical foundation of the study consists of the enterprises who received the 'Gröna Kvisten' prize in the years 1993–96 – a prize given to fast-growing SMEs. The study thus follows the growth patterns and processes of all 30 award-winning enterprises from that period.

The aim of the chapter is to trace different patterns of growth, to analyse these patterns of growth processes, and to enhance the understanding of the interplay of growth processes and internal organization – thus going a step beyond studies that investigate the impact of determinants on growth and outcome.

The study makes four interesting contributions. Firstly, it fills a gap in the current body of literature on growth, which largely neglects internal growth processes. Various growth processes in companies are mapped, illustrating changes over time.

Secondly, the study adds rich empirical data to the understanding of different growth processes by providing insights into continuously growing companies across different industries.

Thirdly, it employs a method – the inverse or Q-type factor analysis – which is seldom used but seems to have potential in detecting growth patterns across firms.

And fourthly, the study reframes some common assumptions about growth.

## MANAGERIAL COMPLEXITY

In chapter 8 by Mette Mønsted: 'Debriefing and motivating knowledge workers in small IT-firms: challenges to leadership', the focus is on the conditions for managing in complex organizational contexts.

The perspective of the chapter is to illustrate the complexity of management and leadership as a negotiated relationship in complex small IT firms. The conditions are demanding and complex and the knowledge workers are determined to be self-managing. This creates a high level of complexity with challenges to existing management roles.

The empirical part of the study is based on a case study of a small multimedia firm, which was studied longitudinally for 2.5 years. During this period the method of video interviewing was used.

The chapter focuses on managing knowledge workers. This is a delicate balance between motivation and coordination, between playfulness and efficiency. Therefore the chapter outlines and discusses some of the dilemmas to which the manager is exposed.

The chapter also discusses the issue of leadership, as the manager is responsible for division of labour, but lacks insight as he is not highly competent when it comes to the content of the professional issues. He is dependent on the knowledge worker's insight to assure the replicability and the explicitation of knowledge.

The knowledge workers such as 'nerds' and 'stars' among programmers are the highly valued knowledge workers, and probably very efficient at solving certain tasks and creating commitment. However, it is difficult to control them to make it economically feasible when projects have to meet deadlines and be sold. Thus this type of relationship sharpens the attention to different roles of leadership and the need for management and economic control.

The chapter focuses on the managerial implications of asymmetric knowledge, and handling complex knowledge. It therefore emphasizes that the role of the management in knowledge-intensive firms could be seen as a negotiation and social construction of power in communication with subordinates.

Mariachiara Colucci and Manuela Presutti discuss the role of social capital as a resource in SMEs in chapter 3, 'Small firms' relationships and knowledge acquisition: an empirical investigation'.

The purpose of the chapter is to illustrate the value of social capital and how social capital can facilitate external knowledge acquisition in the customer relationships of small firms.

Based upon a sample of 212 vertical dyadic relationships based in Italy, the chapter examines the effects on knowledge acquisition of social capital in small firms' business relationships. Building on social capital and network theories, the chapter proposes that social capital enhances external knowledge acquisition in customer relationships, and that such knowledge improves the value of these business networks.

According to an embeddedness perspective, the study has chosen the vertical dyadic relationships between a small firm and its customers as the level of analysis, considering social capital to be a source of value inherent in social structural arrangements.

The direction of the empirical findings supports the hypothesis that small firms consider external networks as a resource to get access to external resources and knowledge in order to compensate for their restricted internal portfolio of both tangible and intangible resources.

The results suggest that the structural dimension of social capital is positively associated with knowledge acquisition, while high levels of

relational dimension limit the process of diffusion and spread of valuable information among partners, with a negative impact on knowledge acquisition.

The study also indicates that the third dimension of social capital, the cognitive one, is highly correlated with the relational dimension, showing the redundancy of information of the two constructs.

In chapter 10 by Johanna Pulkkinen – ‘Internationalization of new ventures: mediating role of entrepreneur and top management team experience’ (awarded the Best Paper at the conference) – the focus is on internationalization of new ventures and managerial experiences.

The aim of the study is to explore the link between international experience of the entrepreneur and the top management team, and the internationalization of these new ventures. Experience is regarded as a mediator of international new venture (INV) development through its influence on specific decisions and the use of strategies that might explain these firms’ development.

The empirical findings of the study are based on survey data of 211 exporting Finnish SMEs and qualitative case studies of eight Finnish INVs from different fields of industry.

The theoretical base of the chapter is developed through combining approaches in international business, management and entrepreneurship fields, with special focus on SME research as INVs are regarded as a special type of SME. This leads to four hypotheses for the relationship between experience and internationalization, all suggesting that higher, prior, international experiences will have a positive impact on the internationalization processes of the firm.

The results give at least partial support to all hypotheses, indicating that the experience level in itself is directly related to the internationalization degree of the venture. It also reveals that in firms where the management has gained prior, international experience, this capital has been used in decision-making concerning the initiation of international operations of the current venture, as such being an important driver.

Mark Freel’s chapter 5, ‘Innovation and the characteristics of cooperating and non-cooperating small firms’, focuses on the ‘who’ and ‘why’ of innovation networking.

The aim of the study is to contribute to an improved awareness of the characteristics of cooperative innovators in terms of both their resources and their strategic intent.

The study draws upon data from a large-scale survey of northern British SMEs including 1345 small firms.

The chapter identifies the characteristics of firms engaged in innovation-related cooperation with a variety of partners. The definition of

innovation-related cooperation is broader than in similar motivated studies. This means that the interest is in 'innovation-related activity including marketing and training and/or technology transfer' and not, narrowly, in R&D. To this end, innovation-related cooperation appears to be a far more widely distributed phenomenon than one might suppose.

The study points to considerable variation in the characteristics associated with cooperation by innovation partners. Whilst firm-size, R&D intensity and 'high-techedness' are generally thought to positively influence the propensity to engage in R&D cooperation, their influence over innovation-related cooperation is far more restricted.