Introduction

Candida G. Brush, Roger Sørheim, L. Øystein Widding and Lars Kolvereid

This book emerged from a series of research presentations held in 2007 and 2008 at the Norwegian University of Science and Technology (NTNU) and Babson College. Participants in the research presentations were from three schools, Babson College, NTNU and Bodø Graduate School of Business (Norway). All the researchers were active in entrepreneurship research, but approached the topic from a variety of disciplines including strategy, engineering, marketing, entrepreneurship, sociology, math/science and economics. The research presentations highlighted the approaches taken by entrepreneurs, challenges and factors influencing success across the life cycle of new ventures. We were intrigued by the similarities and differences between ventures in Norway and the USA and the idea for this book emerged.

Our purpose is to provide a cross-national comparison (USA and Norway) across the phases of venture growth; emergence, newness and growth. While comparing the USA and Norway may at first appear an unusual pairing, a comparison of the two countries from the Global Entrepreneurship Monitor (GEM) suggests that there are some similarities.

Overall, Norway has slightly more business start-up attempts than the other Scandinavian countries, but markedly lower than the USA (8.4 percent). Approximately 40 000 to 45 000 new businesses are registered in Norway each year, which corresponds to approximately 15 percent of the total business population (Spilling, 2006). However, each year an equivalent number of businesses close down. The USA reports approximately 627 200 new employer firms began operations in 2008, and 595 600 closed in 2008 (http://web.sba.gov/faqs/faqIndexAll.cfm?areaId=24). The GEM report for 2008 shows that the rate of entrepreneurial activity in the USA is around 10.8 percent (http://blogs.babson.edu/facultyblog/2009/11/13/public-policy-in-the-united-states-gem-2008-report/http).

Norway reports low rates of entrepreneurial intentions compared to other European countries and most of the start-up activity is carried out part time, suggesting that entrepreneurship may not be considered as a legitimate career
path (Bosma et al., 2008). However, prevalence rate of entrepreneurial activity in 2008 was around 5 percent close to the USA which was 5.9 percent, although early stage activity lags the USA by more than 2 percent (Bosma et al., 2008).

The book is organized into four parts; context, emergence, newness and growth. These phases loosely follow the phases outlined in most of the life cycle literature (Greiner, 1972; Churchill and Lewis, 1983; Flamholtz, 1986). Although there is no agreement on the number of stages, most assume that there are contextual dimensions influencing the process, especially age, size and industry growth rate (Hanks et al., 1993).

The context refers to the policies, cultural, social and economic factors in the country environment. Emergence refers to the early nascent phase of a new venture, the time before sales and revenues are received (Gartner and Brush, 2006). Newness is the phase when the venture is working to gain sales, to manage early formation challenges and build stakeholders and customers. Growth is the phase when the firm is seeking additional resources, building the management team and expanding into new markets (Delmar et al., 2003). In this phase early stage financing is a crucial aspect as growth cannot occur without funding. We created a framework to guide this effort and it appears in Figure I.1. All chapters in this book have been peer reviewed by international experts in the same field.

PART I: CONTEXT

This part begins with a chapter by Noyes, Åmo and Allen that examines the conditions for entrepreneurship in the USA and Norway. The chapter provides
an overview of the US and Norwegian contexts using data from the 47 country GEM Study. The authors highlight macro information about rates of entrepreneurship in both countries. The chapter begins with a comparison of framework conditions for Norway and US demographic, geographic and economic differences. Even though there are similarities in GDP across the two countries, the total rates of entrepreneurial activity (TEA) vary in that Norway has a lower rate, and higher prevalence of male entrepreneurs. Comparisons by age, education, stage of business, motives and perceptions of the environment are included. The chapter concludes that even though the countries are similar, the framework conditions are quite different.

Chapter 2 by Rice and Habbershon investigates the context of entrepreneurship. The authors propose an input-output model that captures the flow of resources from the environment into a new venture. They describe the components of an entrepreneurship eco-system and operationalize this using the model of an incubator program. The incubator model reflects inputs from the community, to the companies and outputs into the community from the program. The model has two levels of context – first the incubator offers access to resources, advice and training, and it also serves as an intermediary between the community and the companies. The chapter concludes with implications for policy and education in Norway.

PART II: EMERGENCE

This part considers ventures in the nascent phase – before they have sales and revenues, while the venture is in the early formation (Gartner, 1985). Organizational emergence involves those events and activities before an organization becomes an organization, that is, organizational emergence involves those factors that lead to, and influence the creation and development of the organization. The value associated with the new reality is being discovered and exploited (Ronen, 1982). This process involves the entrepreneur’s perception of opportunity structures, or gaps in the market, that are met by acquisition and the management of resources (land, labor and capital) and information networks (Glade, 1966). Leibenstein (1968) argues that entrepreneurs coordinate activities that involve different markets and that they are, in effect, an inter-market operator. Organizational formation is a dynamic process in which activities such as obtaining resources, developing products, hiring employees and seeking funds are undertaken at different times and in different orders. During emergence the entrepreneur(s) brings together resources, and engages in activities which will eventually distinguish the business as an entity that is separate from the individual(s) who began the firm (Reynolds and Miller, 1992; Carter et al., 1996).
In Chapter 3 Manolova, Edelman, Brush and Rotefoss compare nascent ventures in Norway with those in the USA. Their chapter empirically tests the Katz and Gartner (1988) framework that identifies core properties of emerging organizations: intentionality, resources, boundary and exchange. Using longitudinal data from Norway the authors test the composition and completeness of the properties on the likelihood of continued organizing. Their study finds that intentionality, boundary and exchange are necessary and sufficient for firm survival in the short term and that resources are necessary but not sufficient. Further, results show that entrepreneurs who engage in a larger number of start-up activities are more likely to continue the organizing effort in the short term and that initially engaging in a large number of activities is a good strategy for new ventures, but that there is a point where too many activities lead to diminishing returns.

The topic of commercialization of university research is considered in Chapter 4 by Rasmussen and Rice. The authors examine models for government support of university research in Norway. The authors examine approaches taken by universities to facilitate technology transfer, and consider initiatives based on benchmarking and experimenting. They discuss barriers and issues related to technology transfer and commercialization, and then investigate Norwegian initiatives developed to promote commercialization of university research. From this analysis Rasmussen and Rice propose a conceptual framework that articulates four models for ways government can promote the commercialization of university research. They conclude with implications for future policy programs.

In Chapter 5 Vestrum and Rasmussen investigate the emergence of a community venture in a longitudinal study. They explore aspects of legitimacy in the creation of two music festivals created in Norway. The festivals were designed to revitalize small rural communities. By investigating the early stages of the venture formation process over time, the authors explore how these community ventures gradually gained legitimacy. They make use of a novel theoretical framework that considers how nascent ventures can move beyond current stocks of resources. They explore the ways these ventures conformed and manipulated their internal and external environments. The chapter concludes with a description of legitimacy building strategies and implications for future research.

The final chapter in this part investigates industry incubators in Norway, and explores the link between open innovation policy and entrepreneurship. A central challenge for emerging firms is to gain access to resources and competences from which they can develop new products and services to be competitive. Industry incubators often assist in this process, using either open or closed models. Clausen, Rasmussen and Rice conduct a qualitative study of four industry incubators in Norway. They explore the role of the incubator
management and their policies and the effects on the start-up firms. The chapter takes a societal perspective in understanding how policies affect the different actors in the incubator system (firms, universities, R&D institutes, government support systems). They conclude that policies can help to overcome challenges faced by start-up firms.

PART III: NEWNESS

This part investigates ventures in the newness phase, when the venture is working to gain sales, to manage early formation challenges and build stakeholders and customers (Gartner and Brush, 2006). This is the point where new venture is focused on surviving in the short term, and achieving performance in the longer run, although the organization may become ‘stable’ or decline. The direction of the venture is articulated through resource commitments and procedures for managing resource deployment are developed (Becker and Gordon, 1966; Dollinger, 1999). The individual human and social assets become increasingly institutionalized in the organization (Boeker, 1988; Shaver and Scott, 1991). The organization often faces liabilities of newness (Stinchombe, 1965).

This part begins with a chapter by Vinogradov and Elam that is rooted in entrepreneurial process theory (Shane, 2003). The authors address the research questions: (1) What are the key factors at various levels of analysis that differentiate immigrant entrepreneurs and their businesses from others? and (2) Do these factors matter more or less at various stages of the venture creation process? Vinogradov and Elam argue that selective migration and pre-migration experiences position immigrants in a unique way within their host countries and that the characteristics and resource sets of immigrant entrepreneurs differently influence the various stages of the venture creation process.

Erikson and George in Chapter 8 consider the decision-making disagreements and the influence on performance in venture capital backed firms in Norway. Based on information processing theory they develop hypotheses stating that task conflict is positively related to new venture performance, while process conflict is negatively related to new venture performance. Using a sample of 45 venture capital backed firms in Norway, they find support for their hypotheses.

In Chapter 9 Bjornåli and Erikson focus on three factors which are expected to influence team member additions in academic spin-offs. These are board size, the number of outsiders on the board and board contribution to networking. In their sample of 95 academic spin-offs in Norway they found that board size and networking activity level facilitate the team number addition process, while the effect of the number of outsiders on the board had no significant effect.
PART IV: GROWTH AND EARLY STAGE FINANCING

Growth is the phase when the firm is seeking additional resources, building the management team and expanding into new markets (Gartner and Brush, 2006). While not all firms choose to grow (Ginn and Sexton, 1990; Rosa et al., 1996; Wiklund et al., 2003) analysts suggest that some growth over time is desirable for continued survival (Delmar et al., 2003). A key aspect of growth is the ability to obtain early stage financing. Fast growing companies need cash to grow and the faster the growth, the greater the appetite for cash. As Churchill and Mullins (2001) have noted, there is a pace beyond which companies cannot fuel growth organically and must turn to external sources of cash flow – debt (whether it be permanent or semi-permanent), equity financing, owner and family financing or joint venturing are some of the more common solutions. This part includes chapters covering aspects of growth in new ventures such as venture capital acquisition, team management and effects of internationalization.

The relationship between the venture capitalist and the entrepreneur is investigated by Erikson and Zacharakis in Chapter 11. The chapter examines the effect of conflict upon confidence in partner cooperation. They demonstrate that conflict is harmful to the relationship and make three contributions. First, they find the entrepreneur perspective view of cognitive conflict as detrimental. Implications for investors and entrepreneurs are to be cautious in how they handle (good faith) disagreements, as they may turn into – often irreparable – affective conflicts. Second, they look at how process conflict within the dyad has an indirect negative effect through affective conflict component.
Finally, this chapter looks at how general intragroup conflict can transfer and lead to intergroup conflict.

Chapter 12 explores perceptions of the use of external funding by new business founders. Sørheim and Isaksen examine financial preferences and use of external funding among prospective and non-prospective employers in Norway. They find that prospective employers are more positive towards the use of external funding (both debt and equity). They also have been more active in the search for different types of external funding and also more successful in actually getting offers of external funding (debt and equity). At first sight, this chapter indicates that non-prospective employers follow a ‘pecking order’ reasoning. However Sørheim and Isaksen suggest that this rank of financial sources is primarily related to non-prospective employers’ lack of growth aspirations. Prospective employers seem to adjust their perceptions and actual financial behavior to the actual situation of their business. Consequently, prospective employers perceive external funding (debt and equity) as the right means in order to achieve their goals.

The final chapter by Kolvereid, Isaksen and Óttoösson presents a longitudinal study investigating the association between advice received by entrepreneurs during the new business start-up process and subsequent venture performance. In this chapter they investigate if advice has diminishing returns to scale. Entrepreneurship studies on diminishing returns are scarce and the purpose here is to contribute to this research, attempting to identify an optimal number of sources of advice. The results indicate a positive effect of advice on performance; however, utilizing more than six sources of advice has a negative effect on performance. Entrepreneurs should pay attention to the importance of the quantity and the quality of advice. Authorities may consider changing the focus of their initiatives to better reflect the findings reported in this chapter.

**IMPLICATIONS**

This book offers intriguing contributions with regard to the emergence and growth of knowledge-based firms in a developed economy like Norway. The book offers unique insights when it comes to direct and indirect efforts from the government in order to stimulate the formation of knowledge-based firms. The Norwegian efforts seem in many cases to be heavily influenced by experiences in prospering regions in the USA (like the Boston area and Silicon Valley). This is especially evident when it comes to stimulation of academic entrepreneurship. This can be traced back to the introduction of the Bayh-Dole Act in the USA. The subsequent success from leading research institutions in the USA in bringing new research findings to the marketplace has also
inspired the development of efforts to increase the commercialization of technology-based firms in Norway. However, there is a growing awareness of the fact that facilitating the formation of knowledge-based firms in a prosperous US region is quite different from working in a more rural context as in Norway. This calls for other direct and indirect means, both when it comes to the development of infrastructure and schemes to support the emergence of knowledge-based firms financially. Rather, the findings from a Norwegian setting must be interpreted with caution and may not be directly transferable to a US setting. However, the US setting is also heterogeneous and findings from small developed countries in Europe may be more relevant to smaller US regions (and not to regions like Boston and Silicon Valley). These are important elements to take into account when carrying out comparative studies in the future. In all, we believe this book offers a significant and new cross-country comparison, as well as highlighting topics important to emergence and newness not previously researched.

REFERENCES


Ginn, C. and D. Sexton (1990), ‘A comparison of personality type dimensions of the


