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Micro-Enterprises and their Supporting Organisations

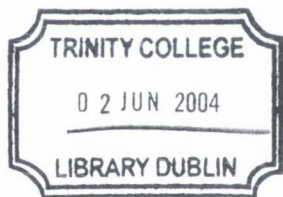
(2 Volumes)

Vol. 1

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Thesis submitted for the degree of Ph.D.,
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October 2003.



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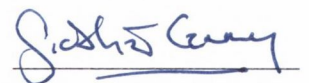
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Summary

This study endeavours to develop a model which will present the characteristics of entrepreneurs, their micro-enterprises and their interaction with external enterprise promoting organisations. The research aim is to conceptualise the impacts of the institutional environment on micro-enterprise development by focusing attention on the interaction of entrepreneurs with enterprise promoting organisations. The empirical research is focused on three categories of organisations (LEADER Companies, County Enterprise Boards and Partnership Companies), operating in three counties (Mayo, Monaghan and Wicklow).

The research was conducted by forming a theoretical conceptual framework for the study. Secondly, it involved a collection of relevant data from the organisations involved in the study. Thirdly, a questionnaire survey established the main body of data. Finally, semi-structured interviews were conducted with entrepreneurs, representatives from each of the organisations and a selection of individuals who had expertise in a particular area relating to entrepreneurship and/or organisational supports.

With regard to the personal characteristics of the entrepreneurs, the majority attributed the formation of the entrepreneurial idea to previous work experience, hobbies and personal interests. Also noteworthy was the insignificance placed on contacts established with the CEB/LEADER/Partnership initiatives. The factors identified as most significant for entrepreneurship, were having a personal interest in one's enterprise, having one's own capital for investment and the presence of an existing market for the product/service. The main motives identified were personal interest, the desire to be one's own boss and the wish to provide a better income. The main goals identified were income and family security and the improvement in enterprise quality. The desire to capitalise on experiences gained in the workforce, and/or on existing hobbies or personal interests constituted the main ways in which the entrepreneurial ideas were established. Overall personal reasons were identified as the most significant factors in influencing and facilitating the entrepreneurs.

The majority of entrepreneurs were male, aged between 30 to 45 years and were married. The majority operated as sole traders with little familial involvement in the enterprises. The majority of entrepreneurs were born in Ireland although the vast majority of entrepreneurs had moved at some stage in their lives. With regard to the levels of education and training, the female entrepreneurs had higher levels of education and were more likely to have undertaken training.

The micro-enterprises were composed mainly of newly established enterprises, the majority established since 1991 and in particular the latter half of the 1990s. The majority were one-person operations, involved in the service sector, had a low level of employment creation and displayed a

strong dependence on the home market. More encouragingly, the vast majority of entrepreneurs considered the enterprises to be innovative. Many indicated the wish to alter the enterprises in the future and the main opportunities stated for the enterprises were a growth in the market for the products/services, changing attitudes amongst consumers and future expansion opportunities. Correspondingly the main constraints/threats stated were competition, a lack of finance and high costs. The factors which most influenced the choice of location for the enterprises were, location near the home of the owner/manager, site and availability of buildings and one's proximity to market/customers.

The majority of entrepreneurs became aware of the enterprise-supporting organisations from personal contacts, the local media and public meetings. The greatest help received from the organisations were funding, business advice and marketing assistance. The greatest obstacles encountered were red tape, insufficient funding and difficulties with organisational personnel.

Micro-entrepreneurship is an individual and highly personal process and these factors influence the enterprises and the interaction between entrepreneurs and external institutions. Overall the entrepreneurs expressed satisfaction with external organisational supports, which suggests that such help is significant for the establishment and development of micro-enterprises and for the creation of a favourable entrepreneurial environment in Ireland. Nonetheless, the study results revealed many obstacles for entrepreneurs and in particular for micro-entrepreneurs, which suggests that there are changes needed in order to promote more positive interaction between entrepreneurs and external enterprise-supporting institutions in the future.

Suggested improvements to supports for micro-enterprises and the interaction between entrepreneurs and supporting organisations include: assisting the improvement of quality of individual enterprises supported and encouraging employment creation, training, and networking amongst micro-entrepreneurs. Although financial assistance is in many cases very small, the continued provision of small grant assistance may be significant in encouraging more micro-enterprise creation and development in the future. Appropriate support structures should be put in place, to encourage more female entrepreneurship. The entrepreneurs' previous work and life experiences should be recognised by policy personnel and should be considered a valuable contribution to one's engagement in entrepreneurial activities. Entrepreneurs who have no plans for enterprise growth should be encouraged to participate in training courses and to seek business advice which relate to day-to-day enterprise management and common difficulties experienced by micro-entrepreneurs. Effective communication, an explanation of criteria and procedures for receiving support, the development of credible, open and trustworthy relationships and on-going assistance, will facilitate positive interaction between micro-entrepreneurs and supporting organisations in the future.

Acknowledgements

I would like to extend my sincere gratitude to the many people who provided help, advice, encouragement and support in the compilation of this thesis.

Firstly, I would like to thank my supervisor, Professor Desmond Gillmor for his words of advice, his guidance and his assistance in completing this thesis. His encouragement and patience are greatly appreciated.

Secondly, there are many people who provided information for the research of this thesis. I would like to thank all the organisational personnel from the County Enterprise Boards, LEADER Companies and Partnership Companies in Counties Mayo, Monaghan and Wicklow. I would also like to thank Ms Anna Lee and Mr Maurice O'Connell at Tallaght Partnership for their words of advice at the start of this research. A special mention to I.R.D. Kiltimagh and especially Mr Joe Kelly and Mrs Mary Nolon, and Ms. Ann Finn at Meitheal Mhaigheo for their help and inspiration.

Thirdly, I would like to thank the entrepreneurs who participated in the study and especially to all those who offered their time, gifts, accommodation and transport. I wish them well in their future entrepreneurial endeavours.

Fourthly, I would like to acknowledge the help and support of the Geography Department of Trinity College and all the postgraduate students for their friendship over the past few years.

Finally, I would like to thank my family and friends for their constant support and friendship.

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List of Acronyms

- AAES:** Area Allowance Enterprise Scheme
- ABPC:** Area Based Partnership Company
- BMW:** Border, Midlands and West Region
- BTWAS:** Back to Work Allowance Scheme
- BTWEAS:** Back to Work Enterprise Allowance Scheme
- CEB:** County Enterprise Boards
- CEC:** Commission of the European Community
- CRO:** Company Registration Office
- CSF:** Community Support Framework
- CTCS:** Caribbean Technological and Consultancy Services
- DAFF:** Department of Agriculture, Food and Forestry
- DCRGA:** Department of Community, Rural and Gaeltacht Affairs
- DSCFA:** Department of Social, Community and Family Affairs
- EFILWC:** European Foundation for the Improvement of Living and Working Conditions
- EI:** Enterprise Ireland
- EU:** European Union
- FÁS:** Foras Áiseanna Saothair
- GDP:** Gross Domestic Product
- GEM:** Global Entrepreneurship Monitor
- GVA:** Gross Value Added
- IDA:** Industrial Development Authority
- ILO:** International Labour Organisation
- IRD:** Integrated Rural Development
- I.T.:** Information Technology
- LAG:** Local Action Group
- LEADER:** *Liaison entre actions de développement de l'économie rurale* – Links between actions for the development of the rural economy
- MNC:** Multi-national Company
- OECD:** Organisation for Economic Cooperation and Development
- OPLURD:** Operational Programme for Local, Urban and Rural Development
- R&D:** Research and Development
- U.K.:** United Kingdom
- U.S.:** United States
- V.E.C.:** Vocational Education Committee

Chapter 1: Introduction

1.1: Introduction

The significance of entrepreneurs and the valuable role which their enterprises, in particular their micro-enterprises, play have been reflected in the increasing numbers of entrepreneurs in Ireland, and the expanding level of research on and support to entrepreneurship which have developed over a number of years. The entrepreneur has been valued for his/her contribution to the economy, to society, to culture and to the environment. More specifically, these enterprises are valued for their role in job creation, wealth, innovation, independence, competition, diversity and philanthropy.

The aim of this chapter is to provide a brief introduction to the research study. The significance of entrepreneurship in Ireland is outlined first. Secondly, the case for entrepreneurship policy is outlined to introduce a justification for the provision of supports to this sector. Thirdly existing research in the field of entrepreneurship studies is presented and the many shortcomings in research of this nature are identified. Following this the main aim and objectives of this research are outlined and the chapter concludes with an outline of the structure of this Ph.D thesis.

1.2: The significance of entrepreneurship in Ireland

In comparison with other western global economies, how would Ireland rate when comparing entrepreneurship levels across locations? In a Global Entrepreneurship Monitor (GEM) report (Fitzsimmons et al, 2001), Ireland was ranked sixth of 29 countries in terms of the overall entrepreneurial propensity of its adult population. In a more recent GEM report, Ireland was ranked the twelfth most entrepreneurially active out of 37 participant countries (Fitzsimmons et al, 2002). In the past, the same measure might not have ranked Ireland so favourably due to a variety of reasons, such as the absence of a strong industrial base and dependence on foreign direct investment. Nonetheless, the more favourable environment for entrepreneurship, particularly since the 1990s, has contributed to increasing entrepreneurship levels, such that in effect the 1990s has been termed the decade of self-employment (Duggan, 1998).

The Task Force on Small Business (Government of Ireland, 1994) noted that Ireland was a nation of small business. Furthermore, it estimated that more than 90% of enterprises in Ireland employed fewer than 10 people. Consequently small businesses, and in particular micro-enterprises, have been valued for their role in employment creation and economic development. Nonetheless, the strong performance of the Irish economy over the past number of years can be attributed to many factors, such as Ireland's membership of the EU since 1973, the presence of a strong base of foreign direct investment, advancements in communications and technology, investment in education, social partnership agreements and policy support for entrepreneurship and enterprise

creation. Nevertheless, as the recent downturn in the economy indicates, there can be no room for complacency; Ireland's future success will depend on many external factors, which are often beyond its direct control. Globalisation has transformed the way people can do business, and changed the way that people view space and time. Consequently, it has introduced and expanded markets in many locations around the world, and, as a result, has created opportunities for entrepreneurs to seek export opportunities beyond their home location. In light of these changes, there is a need to increase the level of investment in infrastructure, education, tele-communications, human resources, research and development (R&D) and, more importantly, in Ireland's most significant resource – its entrepreneurs.

1.3: The case for entrepreneurship policy

The re-emergence of the small firm since the 1970s is generally attributed to many factors such as: the Post-Fordist period of production; the restructuring of industry; the demand for quality, niche products; changing consumer attitudes and expectations; the increase in time devoted to leisure, environment, health and hobbies; advancements in technology; increasing emphasis on knowledge and research and development; favourable and supportive government policies; increasing entrepreneurial legitimacy; and the many education and training opportunities for aspiring entrepreneurs. In response to these changes, many governments have established entrepreneurship policies which address a variety of social and economic issues, such as rising unemployment, changing demographic characteristics and the recognition that entrepreneurship can contribute to balanced regional development.

The Irish Government's justification for providing supports to this sector is relayed succinctly in the following statement: "A flourishing Irish small business sector is essential if our young people and unemployed are to find work" (Government of Ireland, 1994:2). Not only are small firms valued for their role in employment creation but also they are considered for their high levels of strong personal commitment, their flexibility, adaptability, dynamism and ability to be innovative, and their contribution to ensuring competition and extending choice to the Irish consumer (ibid, 1994). However, the recognition that small firms are significant but that they are hindered by inadequate levels of financial and management resources, provides a strong justification for consideration and commitment to this sector.

In light of the above points, it is widely acknowledged that in every society there is a need for more entrepreneurs. Nonetheless the questions arise: i) what factors influence an individual in the decision to become an entrepreneur?, ii) what factors assist one in becoming an entrepreneur and establishing and developing an enterprise?, iii) what is our understanding of the interaction between entrepreneurs and enterprise-supporting organisations? In view of these questions, it is considered

that the present research will contribute to a better understanding of the many factors influencing the entrepreneurial process and raised in the questions. Furthermore research in this field can help to guide entrepreneurship policy, so that a more favourable entrepreneurial environment is created and the levels of entrepreneurship increase across locations.

1.4: Research on micro-enterprises and micro-entrepreneurs

Research in entrepreneurship has expanded since the 1970s, with studies focusing on specific factors, or a variety of factors, which influence entrepreneurship. Studies that focus exclusively on the individual entrepreneur examine the psychological characteristics which are thought to be inherent in entrepreneurial individuals, and the individual motives, goals and expectancies which may influence their entrepreneurial feat. Sociological studies have tended to focus on the entrepreneur's environment, including the variety of social and cultural factors which are thought to influence the individual, both in the decision to become an entrepreneur and subsequently in the management of the entrepreneurial venture. Studies in economics have traditionally focused on the economic contribution which entrepreneurship makes to society. Many studies of this type focus on the role of the enterprises in the economy, at the neglect of the entrepreneurial individuals who are responsible for such enterprise creation (Chapter 4).

While undoubtedly there has been an increase in entrepreneurship studies, major interest in entrepreneurship is relatively recent. Sexton and Kasarda (1992:3) noted that in 1980, entrepreneurship "as an academic discipline was still in its infancy". However, with the increasing recognition of the importance of entrepreneurship in many countries, more researchers became interested in examining the entrepreneurial phenomenon and, consequently, more research studies have emerged.

Nevertheless, despite the number of studies devoted to the many facets of entrepreneurship, there still exist some uncertainties in entrepreneurship research. By 1992, Sexton and Kasarda (1992) identified a number of areas in entrepreneurship where more research was needed. The areas they identified were related to: female entrepreneurship; the economic and social contributions of new and growing firms; the effects of public policy and resource allocation on new ventures; the characteristics that enable entrepreneurs to adjust management styles to the more formal organisation of a growing firm; and the question of how to make the public sector a more positive force in entrepreneurship.

More recently, a number of further gaps in entrepreneurship research were identified by Stevenson and Lundström (2002b) and included:

- The lack of clarity regarding the relationship between entrepreneurship and SME policies;

- Entrepreneurship development – can it be taken as an extension of SME policy and, if so, how is entrepreneurship development and SME policy integrated?;
- Entrepreneurship policy - is it distinct from SME policy?;
- Is there a need for innovations in the implementation of entrepreneurship development policy measures?;
- Is there a requirement for new institutional arrangements?

The above questions highlight a number of research gaps which remain, and this can be attributed to both the need for more research in entrepreneurship and the need for more integrated and multi-disciplinary studies in entrepreneurship. Furthermore, the many difficulties experienced in making comparative studies between different countries (Chapter 2) highlight the additional need to develop more uniform and sophisticated methods, in order to achieve accurate and comprehensive comparative studies in entrepreneurship.

1.5: Aim and objectives of the research

This study endeavours to develop a model which will present the characteristics of entrepreneurs, their micro-enterprises, their level and perception of their interaction with external enterprise promoting organisations and their perceived or actual problems, threats and opportunities within their external environment. The research aim is to conceptualise the impacts of the institutional environment on micro-enterprise development by focusing attention on the interaction of entrepreneurs with enterprise promoting organisations. The empirical research is focused on three categories of organisations (LEADER Companies, County Enterprise Boards and Partnership Companies), operating in three counties (Mayo, Monaghan and Wicklow).

The study focuses on three main areas in entrepreneurship: the entrepreneur, the established enterprise and the entrepreneurs' interaction with external enterprise-supporting organisations. More specifically the objectives include:

1. To examine the factors influencing individuals in the decision to become micro-entrepreneurs and in the establishment and/or creation of a micro-enterprise. Furthermore the personal characteristics of the entrepreneurs are examined in the light of their implications for enterprise creation and/or development. More specifically the factors considered include:
 - Demographic characteristics: age, gender and marital status;
 - Mobility patterns: birthplace, present place of residence, last place of residence;
 - Level of educational attainment and training undertaken;
 - Contribution which education and training have made to success achieved as entrepreneurs;
 - Involvement in entrepreneurship in the past;

- The main factors considered important for people setting up a business enterprise;
 - Previous work experiences and size of business most often worked with;
 - The entrepreneurs' personal goals;
 - The level of familial involvement in the enterprises;
2. To examine the main characteristics of micro-enterprises, to investigate the internal environment of the enterprises, the influence of the external environment on the enterprises, their contribution to the environment of their local areas and their likely growth potential. The factors investigated include:
- Project ownership, sector and year of establishment;
 - The level of employment creation;
 - The main markets for the enterprises;
 - The entrepreneurs' views of the market for the enterprises;
 - The intention to alter the enterprises in the future;
 - The main constraints or threats facing the enterprises;
 - The perceived opportunities in the external environment;
 - The level of innovativeness;
 - The main advantages and disadvantages of the region/county/local area for the enterprises.
3. To investigate the level, method and perception of the entrepreneurs' interaction with enterprise-supporting organisations and the entrepreneurs' views of the efficacy of such state policies for entrepreneurship. The institutional factors considered in the study include the established enterprise supporting organisations, namely the CEBs, LEADER Companies and Partnership Companies. More specifically, the interaction between the entrepreneurs and external enterprise-supporting organisations is considered in relation to:
- How the entrepreneurs became aware of the institutional supports available to them in their environment;
 - The greatest help received from the organisations in developing/maintaining the enterprises;
 - Their frequency and method of interaction with institutional supports;
 - The amounts and sources of funding to the enterprise and other assistance and advice received in developing the enterprises;
 - The level of attendance at LEADER/CEB/Partnership organised training courses/workshops;
 - The levels of satisfaction and dissatisfaction with the overall level of assistance/support received from the organisations;
 - The likelihood of deadweight amongst the enterprises supported;
 - The greatest obstacles encountered in the relationship with the organisations;

- Supports or assistance absent at present that the entrepreneurs would like to see introduced;
- The factors which lead to positive and negative interaction experiences;
- The likelihood of such experiences (either positive or negative) influencing further interaction.

1.6: Structure of the thesis

Following this introduction, Chapter 2 begins with an examination of a variety of definitions for micro-enterprises across selected locations. This is done so as to highlight the difficulties encountered when attempting to compare international rates of micro-enterprise establishment. Secondly, the many factors which have influenced the re-emergence of small firms in the Post-Fordist period of production are presented. Following this, an overview of the significance of entrepreneurship across locations is outlined with a specific focus on the rates of micro-enterprise establishment in Ireland in comparison with the U.K. and other European countries. Results from one GEM (Fitzsimons et al, 2001) report are discussed to present a comparison of entrepreneurship levels across locations. Finally, the link between entrepreneurship and geography is explained, to indicate past and present thinking on the relationship between geography and entrepreneurship.

The methodology research is discussed in Chapter 3. The chapter begins by presenting an outline of the case study areas involved in the research. Secondly the research design is outlined. Thirdly the design and administration of the questionnaire is presented, by focusing on the random sampling method and the analysis and statistical tests used for the examination of the data gathered. Following this, the focus turns to a description, justification and analysis of the interviews conducted as part of the research process. Lastly some conclusions and limitations to the study are outlined to guide future research of this nature.

In Chapter 4, the theoretical conceptual framework for understanding the entrepreneur and the entrepreneurial process is presented. The framework adopted is an eclectic approach to entrepreneurship used by other researchers such as O'Farrell (1986), Audretsch et al (2002) and Verheul et al (2002). A variety of theoretical perspectives on the origins of entrepreneurial behaviour are examined in light of past and previous contributions from many disciplines, including geography, economics, sociology, psychology and organisation behaviour. More specifically, the examination focuses on the individual entrepreneur and on the array of individual and contextual factors influencing the entrepreneurial process. In conclusion, a unified model is presented which outlines the many factors influencing entrepreneurs. It demonstrates that all factors considered do not operate in isolation from one another and should be integrated to form a more comprehensive understanding of entrepreneurship.

In Chapter 5, a theoretical framework for institutional and organisational theory is presented. A variety of questions are examined, including: i) why do organisations exist?, ii) why do organisations interact with external organisations? and, iii) what are the consequences of inter-organisational interaction? Secondly, an overview of economic policy in Ireland is presented to examine policy pertaining to entrepreneurship and to understand the rationale for existing and additional entrepreneurship supports. Thirdly, the three micro-enterprise organisations involved in the research are presented to highlight their contribution to entrepreneurship in Ireland. Fourthly, the different stages of business growth are presented under the ‘stages of internationalisation model’ as proposed by Cavusgil (1980). Lastly, the variety of forms of business ownership are examined, by focusing on the advantages and disadvantages associated with each structure and the rationale for choosing either form. The chapter concludes by presenting a model which places the organisations within their institutional environment and illustrates the rationale for interaction between micro-enterprises and external enterprise-supporting institutions.

In Chapter 6 a comprehensive profile of the micro-enterprises is presented. The examination includes a consideration of location, ownership, sector, year of establishment, level of innovativeness, employment and main exporting activities. In addition, the perception of the external environment for entrepreneurship is considered in light of the entrepreneurs’ views of the market for their enterprises and the main constraints/threats and opportunities presented to entrepreneurs. Following this, an examination of the significance and effect of location factors is considered, by highlighting the main advantages and disadvantages of the region/county/local area for the particular enterprises. Finally, the entrepreneurs’ plans for future alterations of the enterprises are examined to indicate their likely future potential for growth and employment creation.

The focus of Chapter 7 turns to an examination of the perception and level of interaction between entrepreneurs and the external institutions. The analysis leads to a variety of suggestions and policy considerations for improvements in entrepreneurial supports. The interaction is examined by reference to a six-step model, which considers: i) the identification of a need for the enterprise, ii) the search for available supports in the external environment, iii) the awareness of existing supports, iv) the entrepreneurs’ communications with external enterprise-supporting organisations, v) the evaluation of the supports received or not received from the external organisations, and, vii) the level of satisfaction and/or dissatisfaction with the support/s received. Also considered is the level of deadweight amongst the enterprises supported, the greatest obstacles encountered in interaction and, lastly, the suggestions for supports absent at present which the entrepreneurs would like to see introduced.

In Chapter 8 an examination of the entrepreneurs' characteristics and experiences in becoming entrepreneurs are presented in order to investigate the implications for enterprise creation and development. The characteristics examined include the entrepreneurs' gender, age, marital status and level of educational attainment. Following this, the relationship between educational and skill attainment, previous business experience, training completed and size of business most often worked with, are investigated to highlight any implications for enterprise creation and/or development. Furthermore, the interplay between mobility and entrepreneurship is investigated to determine whether there is a link between mobility and one's propensity to become an entrepreneur. The factors influencing the entrepreneurial decision, together with the main motives and goals for entrepreneurship are investigated to identify how and why the individuals became entrepreneurs. Lastly, the factors considered important for people setting up a business, together with the involvement of family members is examined to highlight the importance of informal and formal sources of help and support to enterprise creation and/or development.

Chapter 9 concludes the research study. It begins by presenting a summary of the major findings of the research study and thereafter focuses on suggestions and considerations for micro-enterprise policy. More specifically, the main characteristics of the micro-entrepreneurs are presented, to contribute to understanding of the nature of entrepreneurship and to suggest improvements in supports to micro-entrepreneurs. Secondly the focus turns to presenting a profile of the micro-enterprises. The most salient features of the micro-enterprises are identified and a number of policy considerations and implications are suggested. Thirdly the focus switches to the interaction between the entrepreneurs and the enterprise-supporting organisations, in reference to three research questions: i) why does the entrepreneur interact with other organisations in the external environment? ii) how can interaction be a positive experience for the entrepreneur? and, iii) how can interaction be a negative experience for the entrepreneur? Following this, the main contribution that the research has made to the existing field of entrepreneurship knowledge is presented. Finally, some suggestions for future research of this nature are outlined, to guide further research pertaining to micro-enterprises, entrepreneurship and the interaction between entrepreneurs and enterprise-supporting organisations.

Chapter 2: Micro-enterprises: definitions, development and significance

2.1: Introduction

The aim of this chapter is to contribute to an understanding of micro-enterprises, their definitions, development and significance. The initial focus is on presenting a definition of micro-enterprises across a variety of locations, so as to compare and contrast the range of definitions employed for the micro-sector. In order to understand the development of micro-enterprises, the factors which have influenced the re-emergence of the small firm in the Post-Fordist period of production are presented. Following this, an overview of the significance of entrepreneurship across locations is outlined. Lastly, and more specific to the research study, an attempt is made to explain the link between entrepreneurship and geography.

2.2: Definition of enterprises

There is no universal definition as to what constitutes a micro-enterprise, or indeed a small, medium or large enterprise. Nonetheless, Storey (1994) argued, debates which concern the definition of enterprises turn out to be sterile, unless the size of enterprises can be shown to be a factor which influences the performance of firms. Furthermore, Brooksbank (1991), in his review of the literature on enterprise definitions, revealed a lack of consensus as to what is actually meant by the terms small, medium and large, and he explained that this is why multiple definitions have been proposed. He suggested, that the difficulties with definition were based on three inter-related problems which, he argued, were most usually based on issues of organisational size. They included the questions: i) what is size? ii) how should size be measured? iii) where is the dividing line between small, medium and large? Consequently, different countries use their own working definitions of enterprise size and this explains why there is no common definition.

2.2.1: Definition of micro-enterprises across locations

The standard European Commission (CEC, 2002) definitions of enterprise, measure the size of an enterprise, with reference to the numbers employed and turnover achieved by a particular enterprise, and as such they represent the dividing line between small, medium and large enterprises.

Enterprise's are defined in the following ways:

“An **enterprise** is considered to be any entity engaged in an economic activity and irrespective of its legal form. This includes, in particular sole proprietorship and family business engaged in craft or other activities, partnership and associations regularly engaged in an economic activity” (ibid, 2002: 6).

Micro-enterprise: “An enterprise which has fewer than 10 occupied persons and whose annual turnover or annual balance sheet does not exceed 2 million euro” (ibid, 2002:6).

Small enterprise: “An enterprise with fewer than 50 occupied persons and whose annual turnover or annual balance sheet does not exceed 2 million euro” (ibid, 2002:6).

SMEs: “The category of SMEs is made up of enterprises which have fewer than 250 occupied persons and which have either an annual turnover not exceeding 50 million euro, or an annual balance sheet total not exceeding 43 million euro” (ibid, 2002:6).

As the definition for a micro-enterprise adopted for this study complied with the Commission definition, it was considered important to use also the Commissions definition of employment, when considering and measuring the level of job creation by the micro-enterprises in the study:

Employment: “The number of employees corresponds to the number of annual work units (AWU), i.e. the number of persons working full-time within the enterprise in question, or on its behalf during the year, with part-time work – regardless of its duration and seasonal work being fractions of AWU. In addition to employees, including persons working outside the enterprise but subordinate to it considered to be employers under national law, the number of employers includes owner manager and partners engaging in a regular activity in the enterprise” (ibid, 2002:8).

- Comparative and contrasting definitions of a micro-enterprise

As already stated, different countries use other definitions of micro-enterprises. These are usually based on quantitative and/or qualitative information. A sample of micro-enterprise definitions from a variety of countries is presented to compare and contrast with the definition proposed by the CEC (2002).

The Caribbean Technological and Consultancy Services (CTCS, 2002) of the Caribbean Development Bank defined micro-enterprises as:

“Owner-managed with less than 5 employees, less than US\$25,000 investment in equipment and usually a home based operation” .

Therefore micro-enterprises were categorised as considerably smaller (<5 employees) than their European counterparts. Unlike the CEC (2002) definition, it included no reference to turnover achieved, but instead focused on the amount invested in the enterprise and the typical location for this entity.

In Central America a micro-enterprise is defined in the following way:

A micro-enterprise “generally refers to small-scale units producing and distributing goods and services, which operate with very little capital, or none at all; which enter their market at their own risk; and which originate, in most cases as strategies for survival” (ILO, 1999).

This definition reflects cultural and economic differences across locations, and the corresponding differences and influences on enterprise size and scope. A micro-enterprise is thus established for survival and typically involves small-scale production and distribution, with very little in the way of capital investment.

The U.S. agency for International Development in Promoting Business Development services for micro-enterprises defined micro-enterprises as having:

“Ten or fewer employees including unpaid family workers and owned and operated by an entrepreneur with limited income and assets (excludes agricultural production)” (McKee, 2000).

The above definition outlines that used for a U.S. development agency and does not represent the standard U.S. definition of micro-enterprises. However, the definition uses a similar employment threshold (<10) to the CEC (2002) definition. Furthermore, it identifies the inclusion of family members in the enterprises, which is often very significant and difficult to formally identify and moreover, it includes reference to the owner/manager as an entrepreneur. More importantly, the definition makes specific mention of the fact that a micro-enterprise excludes agricultural production.

In the U.S. on the other hand, a micro-enterprise is a term which is rarely used. Nonetheless, a micro-enterprise in the U.S. is defined as an enterprise which employs less than 5 people. The term small business is more commonly used, because of their greater presence, significance and contribution to the U.S. economy. However, a small business in the U.S. is defined very broadly, to include those enterprises which employ 5 to 200 people. Other countries use similar definitions of micro-enterprises, such as in Norway, where the term micro-enterprise (although rarely used) applies to enterprises with less than 4 employees. An SME is defined as an enterprise with less than 100 employees, and further distinctions are made between small companies, which have less than 20 employees, and medium-sized companies which have 20 to 99 employees. In Israel, a micro-enterprise is considered as an even smaller unit, with 2 or less employees and a turnover of <185 000 NIS. These definitions indicate why comparisons on the rates of micro-enterprise development across locations are rather difficult.

Although differences exist in definitions for micro-enterprises, for instance in the numbers employed and the size of capital investment, nonetheless, certain characteristics appear similar. Micro-enterprises are universally characterised by their relatively low levels of capital investment, their high degree of risk, their dependence on family employment and their preference for home-based locations.

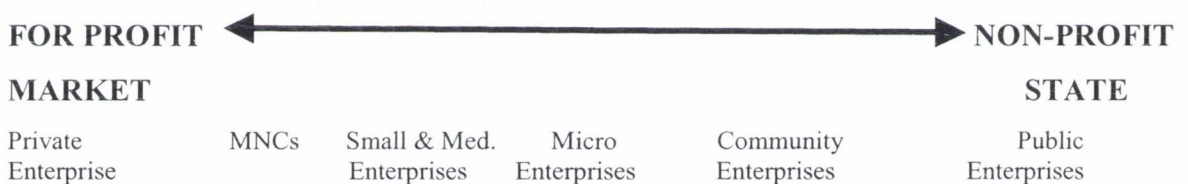
2.2.2: Definition of micro-enterprises in Ireland

The Task Force on Small Business (Government of Ireland, 1994) defined small businesses in Ireland as having less than 50 employees or under £3 million in turnover. Micro-enterprises are defined by reference to their employment threshold, i.e. employing less than 10 people. This definition of a micro-enterprise is used by organisations which support local enterprise activity.

The CEBs are the main organisations which provide supports to the micro-sector. Although LEADER Companies provide enterprise supports, they are required in the first instance to direct project promoters to the CEBs. Partnership Companies provide supports to micro-entrepreneurs by working in partnership with the Department of Social, Community and Family Affairs, which administer the Back to Work Enterprise Allowance Scheme. The scheme focuses on those who are long term unemployed and who wish to become self-employed and start their own business. Generally the individuals supported, establish one-person operations, offer local services and operate under sole tradership.

In recognition of the difficulties in defining micro-enterprises and enterprises in general, Fig. 2.1 presents a continuum of enterprise ‘types’, ranging from informal type enterprises, through micro-enterprises, SMEs, large firms etc. It is suggested that this continuum of enterprise types better situates enterprises in the field, by considering that some enterprises are engaged in a degree of informal activity, and, some enterprises are not for profit ventures e.g. community enterprises.

Fig. 2.1: Mapping economic spaces: enterprise types across locations



Source: Punch, M. (2002:32)

2.3: The re-emergence of the small firm

Interest in the micro-enterprise sector has arisen for many reasons and it is not related only to their increasing numbers across locations. They are valued also for their significance in times of economic recession, their contribution to employment and their ability to remain sustainable and competitive in this era of globalisation. Moreover, micro-enterprises are recognised as flexible, innovative and adaptable, and being capable of creating wealth, employment and other opportunities in local areas. Furthermore, they are noted for their many positive effects on rural areas, including their role in stabilising the rural population base, and attracting entrepreneurs into rural areas.

However, micro-enterprises have not always been so well regarded, their significance having been recognised only after their re-emergence in the 1970s. In order to examine this re-emergence of the small firm, it is necessary to refer to a time period spanning the 1930s to 1970s, which is commonly referred to as the Fordist period of production.

2.3.1: The Fordist period of production: 1930-1970

The Industrial Revolution, which began in the nineteenth century and lasted until the first half of the twentieth century, continued to dominate industrial economies until the 1930s. Prior to this period, small firms were dominant, and were usually characterised by craft industries and cottage industries, as more people lived and worked from home, in a mainly agricultural society. Individual success was therefore the norm and proportionally more entrepreneurship occurred throughout world economies. However, with advancements in transportation, energy and production technologies, which facilitated the beginning of the Industrial Revolution, small firms declined in importance and large organisations emerged as the stronghold of the world economy.

Piore and Sabel (1984) divided the world economy into the first industrial divide, which was known as the Fordist period, and the second industrial divide, known as Post-Fordism and flexible specialisation. Other names which have been used to describe this time period, are post-industrial (Bell, 1973), post-modern, and the information age or knowledge society.

The Fordist period of production was characterised by the mass production of goods, for large uniform and stable world markets. It was facilitated by the advancements and introduction of electrical goods, cars, and chemical and pharmaceutical goods. It was these advancements that made the Fordist production methods possible, as the large scale production of electrical goods, motor vehicles etc., was facilitated by the improvements in electricity and production methods.

The U.S. was the strongest economy at this time. A U.S. automobile industry, General Motors, represented one of the most powerful industries in the world, and this was reflected in a statement from the General Motors President C.E. Wilson in 1953: “what’s good for the country [i.e. the U.S] is good for General Motors, and vice versa” (Bennett, 1990:17).

The large organisations which typified this period were further characterised by vertical integration, which meant that they were highly bureaucratic in nature, and their employees were generally not involved in decision-making. Therefore employers were involved mainly in low-skill, assembly line production of goods, and this division between mental and manual labour practices, was generally referred to as the Taylorist division of labour. This left little room for intrapreneurial activities or the inclusion of teamwork and devolved decision-making amongst the employees in the organisation.

After the 1970s, changes in the world economies were caused by many factors, such as the oil crisis, rising costs, inflation, increasing competition (particularly from Japan), the rise in global unemployment levels and slower worldwide economic growth. From the beginning of 1980 to the

end of 1987, Bennett (1990) noted that in the U.S. alone, Fortune 500 companies dropped 3.1 million jobs, from 16.2 million people employed in 1979 to 13.1 million by 1989. Consequently, as more people in these large organisations became redundant, many turned to entrepreneurial activities and self-employment, as a vehicle to escape the increasing uncertainty and insecurity which began to characterise the large organisation.

As a result of the above changes to the world economies and organisational structures, the period after the Fordist period (post 1970s) is generally referred to as Post-Fordism, the second industrial divide or the era of flexible specialisation (Piore and Sabel, 1984). Flexible specialisation referred to small firms ability to be flexible in organisation and employment techniques, production and outputs. Their ability to be flexible ensured their sustainability and increasing presence, and competitiveness in the future world economic order.

Advances in information technology, innovation, microelectronics and transportation, further facilitated the industrial and organisational changes which took place in the Post-Fordist period. Consequently, a firm's ability to use technology and information freely, faster and more cheaply meant that the economic and social landscape began to be transformed. Firms became more footloose in this era of globalisation and were free to locate almost anywhere in the globe. The mass production, which characterised the previous period, switched to just-in-time methods of production. Small firms began to be recognised for their significant role in employment creation, flexibility, innovation and regional development.

Although not universal, changes in organisational structure manifested in more horizontal integration in the new firms, which allowed employees scope to participate in decision-making, to use their individual skills and to participate in teamwork methods and intrapreneurial activities. This was facilitated by the smaller size of the firms and their lesser number of employees. In turn, employees were required to become more flexible, multi-skilled and able to cope with a variety of work tasks. The emphasis on human capital therefore contrasted with the Taylor like deskilled, assembly-line work production of the previous Fordist period. Subsequently, the individual success and entrepreneurial activity which characterised the pre-industrial period also began to re-emerge. Piore and Sabel (1984) argued that the work practices and inter-organisational linkages, which were operated in Japan after the Second World War, were typical of the re-emergence of the small firm.

Geographically, the smaller firms were also characterised by their ability to create linkages with other firms, and this also ensured their flexibility in an increasingly competitive international market. These linkages often manifested in the creation of industrial clusters where clusters of small firms located in the one industrial district, most notably the Third Italy, West Jutland in

Denmark and Baden Württemberg in Germany. Consequently, economies of scope became more important than the economies of scale which typified the previous period. Storey (1994) usefully summarised the many reasons suggested to explain the emergence of the small firm (Fig. 2.2).

Fig. 2.2: Reasons given for the re-emergence of small-scale enterprise

Supply	Demand
<i>Technological change</i>	<i>Structural changes</i>
<ul style="list-style-type: none"> ◆ New products ◆ New industries 	<ul style="list-style-type: none"> ◆ Demand for services
<i>Fragmentation/cost advantages</i>	<i>Uncertainty of demand</i>
<ul style="list-style-type: none"> ◆ Subcontracting ◆ Japanisation ◆ Buy-outs 	
<i>Labour force/unemployment</i>	<i>Macroeconomic conditions</i>
<ul style="list-style-type: none"> ◆ Demography ◆ Unemployment ◆ Education 	<ul style="list-style-type: none"> ◆ Unemployment
<i>Government</i>	<i>Economic development</i>
<ul style="list-style-type: none"> ◆ Privatisation/deregulation ◆ Welfare/benefits/taxes ◆ Enterprise culture ◆ Attitudes to risk 	<ul style="list-style-type: none"> ◆ Services ◆ Agriculture ◆ 'Niches' ◆ Flexible specialisation
<i>Prices</i>	
<ul style="list-style-type: none"> ◆ Energy prices 	

Source: Storey, D.J. (1994:35).

In Fig. 2.2 a distinction is made between the supply and demand side factors which are thought to have influenced the re-emergence of the small firm. Storey (1994) noted, however, that both sets of factors were not to be considered as mutually exclusive. Nonetheless, he included that the majority of the explanations for this re-emergence were related to the supply-side factors.

On the supply-side, influences such as the introduction of technological change, have introduced new opportunities in work techniques and production methods for small firms. Consequently firms are able to locate in, compete with, and export to almost any location in the world.

Furthermore, fragmentation techniques have resulted in a change to the structure of employment, allowing for more flexible, adaptable and sub-contracting methods of employment. These methods have generally typified the Japanese work and production methods and have resulted in considerable cost advantages for firms. These factors combined, have created considerable opportunities for smaller firms. Furthermore, small firms tend to seek external sources for supplies and services. Consequently, small firms are known to be especially present in the services sector in world economies.

A variety of labour force changes, such as an ageing population, the increase in female employment and the increasing tendency for more males to choose entrepreneurship, which have

characterised many countries can be used as a further explanation for the re-emergence of the small firm. Although it is generally noted that more males choose entrepreneurship, changing social structures, labour market opportunities and improvements in education are some of the factors which have contributed to the increasing numbers of females engaging in entrepreneurial activities.

The intractable nature of high unemployment rates, which have been experienced in many economies, has also influenced the re-emergence of small firms in two contrasting ways. On the one hand, high unemployment rates are noted to influence entrepreneurship levels, as people see entrepreneurship as a vehicle to escape unemployment and to re-enter the labour market. Conversely, high unemployment rates are noted as a factor in explaining low entrepreneurial rates in some countries, for many reasons such as low level of skills, experiences of marginalisation (Chapter 4) and lack of opportunities for entrepreneurship.

Of course the government is always a factor in explaining small firm re-emergence, because of its control over policies, programmes and schemes, which both directly and indirectly influence enterprise creation and development. The government directly influences small firm creation by introducing favourable policies which support entrepreneurship. Furthermore, governments can indirectly influence enterprise creation by controlling or influencing the external regulatory environment for enterprise creation, which includes taxation, provision and supports for infrastructure, employment and welfare benefits, education and enterprise policy. Other external factors, such as the price of energy, national security, environmental laws, and the entrepreneurial climate, can also influence small-firm re-emergence, and such factors are often beyond the control of national governments.

The CEC (2000) noted that awareness of the need to develop and support entrepreneurship at the local level is rising also. In recognition of the many difficulties which enterprises face, it was argued that such difficulties are often best addressed locally. Consequently, many regional and local authorities have fostered a variety of organisational supports and advisory structures, in support of enterprise creation and development, and, in appreciation of the need to promote a more entrepreneurial environment. However it is recommended that the needs of such enterprises must be considered if local job potential is to be generated. This should be achieved by the active involvement of local business people in employment partnerships (ibid, 2000).

On the demand-side, factors such as the declining importance of the primary sector, and the increasing importance of the services sector, have influenced the emergence of many small enterprises. In Ireland, the decline in importance of the primary activities is reflected in estimates which show that employment in the agricultural sector alone was roughly 15% in 1981 and had declined to 9% by 2000 (McCarthy, 2001).

Furthermore, uncertainty of demand has influenced the introduction of just-in time methods of production, to counteract the mass production of goods and to facilitate the ever-changing market. Other changes in the economy have included the increase in the service sector, a decline in the importance of small-scale agricultural production, the demand for niche quality products and services and the introduction of flexible specialisation. In some cases, these factors can be used to explain the re-emergence of the small firm.

However, other factors can be considered to account for this re-emergence. The increasing emphasis on the local economy in this era of globalisation has created favourable opportunities for micro-entrepreneurs to produce quality niche goods and services to serve their local market. Furthermore, the value placed on community entrepreneurship, has favoured entrepreneurial activities, which emerge from community involvement in an entrepreneurial venture. Thus, the CEC (2000:15) has argued that this ‘devolution’ has “brought certain number of decision-making levers closer to local communities, and has made them more responsive to their needs”. In addition, the influence of the media on entrepreneurship can be significant in explaining and highlighting the increased value and consequent improvements in the entrepreneurial culture of societies. Media reports, which describe successful examples of entrepreneurship, favourable enterprise supports and evidences of philanthropy in entrepreneurship, contribute to entrepreneurial legitimacy and thus a more positive climate for entrepreneurship.

2.4: The significance of micro-enterprises: a comparison of selected countries

It is important to consider and to compare the levels of micro-enterprises in other countries in order to help in understanding why some places are more entrepreneurial than others, and to transfer models of good practice across locations. Nonetheless, for a variety of reasons, it is very difficult to make these comparisons and a number of explanations for this are presented in the following subsection.

2.4.1: The difficulties in making comparisons

There are many problems encountered when trying to compare rates of micro-enterprise creation and development across different countries. Some researchers, such as Storey (1994) have suggested that small firm statistics in almost all countries are uncertain and speculative. One of the main reasons, is the variety of enterprise definitions used across countries (Section 2.2), thus making it difficult to determine the real rates of micro-enterprise establishment in any one location and to compare these rates with another location. Although this problem has been recognised for some time, as recently as 2001 the CEC (2001a) stated that there was still an unsatisfactory

availability of data to make comparisons of enterprise creation and development and that it was therefore difficult to interpret data so as to make correct comparisons across countries.

Stevenson and Lundström (2002b) carefully summarised the many reasons which can help to explain this problem. The difficulties include:

- The diversity of national, regional and local activities and the constantly changing landscapes of different places;
- The great diversity in social and economic contexts and, consequently, the data limitations which arise from this;
- The fact that many countries use different employment thresholds to define the size of enterprises and, thus, whether they are considered SMEs;
- Furthermore, different employment-size breakdowns are used to monitor developments in subsets of the SME population of enterprises;
- Some countries include enterprises in the agricultural sector in their statistics, whilst others exclude enterprises in this particular sector;
- Some countries include self-employment and employer-businesses in their data, whilst others report only on those firms which have managed to create additional employment;
- There are some countries with sophisticated SME statistical databases that allow them to track the SME sector and individual firms over time (e.g. Canada, U.S.). Other countries do not have the means or capabilities such as these;
- Some countries have integrated databases which combine the levels of self-employment in the labour force and result in either the over-counting or under-counting of the actual numbers of SMEs;
- In relation to the issue of self-employment counts, the number reported for any one country depends on whether the data are based on tax returns (i.e. number of people who report self-employment income in any taxation year), or based on labour force surveys (i.e. number of people who report they have worked a number of hours in self-employment activity over a certain period);
- Some countries use new VAT registrations as a proxy for new business entries, which may eliminate the smallest of new firms from being included in their estimates. Furthermore, others use new company registrations, which could eliminate a significant number of sole proprietorships from the count;
- Some countries have better statistics on business exit than others;
- There are many recognised problems with the reporting of the survival rates of enterprises;
- There are difficulties with trying to compare employment trends in firms by size and sector over time;
- Governments are not using the same lexicons for SME/enterprise/entrepreneurship development, for example they noted that U.S. Small Business Administration (SBA) refers to

the whole sector as the 'small business sector' (including all firms with fewer than 500 employees); Spain and Sweden use 'SME sector' and Ireland and the UK more commonly refer to 'enterprise sector' and 'enterprise policy'. Furthermore the term 'entrepreneur' is infrequently used in policy statements in Australia, Canada, Taiwan, Ireland and the UK, whilst it is more commonly used in the U.S.

The above reasons help to explain why it is difficult to compare rates of enterprise creation across countries and, consequently, why this should be considered when engaging in entrepreneurship research. Nonetheless an attempt will be made to provide a brief overview of the rates of enterprise creation in selected countries, to provide a general impression of comparative entrepreneurship levels in Ireland.

2.4.2: The rates of micro-enterprises in Ireland

The total labour force in Ireland is roughly 1.77 million, with a labour force participation rate averaging 61% (CSO, 2000). Because of a lack of available data on enterprises by size and employment, it is very difficult to estimate the exact numbers of micro-enterprises in Ireland. The Task Force of Small Business, established by the Irish Government in 1994 (Government of Ireland, 1994), stated that Ireland was a nation of small businesses and it estimated that there were approximately 160,000 non-farm businesses in Ireland, of which just over one-half employed over one person and the remainder were run solely by their owners. In addition, they noted that around 98% of businesses were estimated to have fewer than 50 employees, and almost 90% had less than 10.

- A comparison with the U.K.

The Irish economy has been influenced directly by economic developments and policy decisions experienced in the U.K. Duggan (1998) provided a useful comparison of the rates of self-employment and micro-enterprises in the U.K. and the Republic of Ireland, and the results are used here.

The 1980s were termed the decade of self-employment in the U.K. and this was reflected in figures which showed that from the mid 1970s to the late 1980s, the number of self-employed outside of agriculture increased from 1.7 million to 3.2 million. In contrast, the same estimates for self-employment in Ireland revealed that there was no significant increase until the 1990s. In the mid 1970s there were 86,000 people self-employed (outside agriculture), by 1989 this had increased to 118,000 and by 1997 to 158,940 (Duggan, 1998).

An overview of employment rates in the self-employment and micro-sector categories is included in Table 2.1. The estimates revealed some noticeable differences between the two countries. Firstly, there was a larger percentage of enterprises with only one employee in the U.K (29%), in comparison with Ireland (2%). In Ireland the majority of enterprises employed 2 to 3 employees (58%), whilst in the U.K the largest percentage of enterprises employed 4 to 9 employees (37%).

Table 2.1: An overview of employment in self-employment and the micro-sector in the U.K. and Ireland in 1997

	UK	Rep. of Ireland
Self emp. with no employees	2,288,060	95,460
Self-emp. with employees	795,310	63,480
% 1 employee	29%	2%
% 2-3 employees	34%	58%
% 4-9 employees	37%	40%
Total emp. in micro-sector	1,947,030	187,140
Proportion of all emp. in the micro-sector (including SE)	11%	21%
Proportion of all emp. in the self-employed / micro-sector	20%	28%

Source: Duggan, C. (1998:7)

In general, however, enterprises in the micro-enterprise category were proportionally more prevalent in Ireland than in the U.K. When related to the total workforce, those enterprises in the micro-enterprise category, accounted for 21% of all employment (excluding agriculture) in Ireland and only 11% of all employment in the U.K. Furthermore, when the estimates for the total self-employed without employees was added to this figure, the total employment in the self-employed/micro-enterprise category represented just over 28% of all employment in Ireland, whilst the same estimate for the U.K. was just under 20%.

Duggan (1998) noted two other features of the estimates. In Ireland, part-time self-employment represented just over 7.5% of total self-employment in 1997, whilst the same estimate for the U.K. was 21%. Secondly, the proportion of females amongst the total self-employed in both countries was roughly similar, at 21% for Ireland and 25% for the U.K.

The many differences noted between Ireland and its closest neighbour the U.K., can be explained by a variety of factors. Firstly, the U.K. experienced the Industrial Revolution and therefore its economy developed both earlier and faster than the Irish economy. Additionally, Duggan (1998) noted that, since the mid-1970s both the activity rates and the employment rates in Ireland have been lower than in the U.K, whilst unemployment rates have been higher. Thirdly, the U.K. traditionally had a more open and multi-cultural society than Ireland, which only recently experienced a significant wave of in-migration, following many years of net out-migration. Fourthly, the U.K. Government introduced enterprise-supporting policies, in response to the significance placed on the value and role of micro-enterprises across world economies and for their

role in economic diversification. In contrast, the initial policy concern for the Irish Government was to reduce the high unemployment rates which had persisted over many decades (ibid, 1998).

- A comparison with the European Union

The importance of the micro-enterprise sector has also been noted across other European countries. The European Observatory for SMEs (2000) estimated that just under 85% of total enterprises in the micro-sector category, employed one in four jobs in the EU. Moreover, Ireland along with Italy has higher proportions of very small/micro enterprises than the EU average (85.5%). Furthermore, the EU average was greater than the U.S. and Japanese figures which were 70% and 77% respectively.

Further figures for the year 1996 estimated that there were around 18.4 million enterprises in the non-agricultural market sectors of the EU. Together these enterprises employed almost 112 million, and generated a turnover of more than 17,300 billion EURO (European Foundation for the Improvement of Living and Working Conditions [EFILWC], 2002). The number of enterprises in the EU and their distribution by employment size are included in Table 2.2.

Table: 2.2: Enterprises in the European Union, 1996. Distribution by employment size class

Variables	0	1-9	10-49	50-249	250+	Total
No. of enterprises (thousands)	9,283	7,866	1,087	156	36	18,428
Total Employment (millions)	11.1	27.3	21.0	14.6	37.8	111.8
Turnover (in Euro billion)	660	2,448	2,916	3,385	7,950	17,359

Source: EFILWC (2002:2)

Across the EU, the figures reveal the significance of the sole proprietor category. The enterprises in this category were almost 9.3 million, which represented one enterprise out of every two and accounted for 10% of the total employment estimates. Furthermore, enterprises in this category generated an approximate turnover of 660 billion EURO. Moreover, the significance of the enterprises in the micro-sector were reflected in the total estimates for this sector, which were almost 7.9 million, and represented almost 43% of the total. In addition, enterprises in this sector employed 27.3 million persons, which represented one employee in every four (ibid, 2000). However, not only did they represent a large number of enterprises and employed a significant proportion of the population, but these enterprises had an estimated turnover of 2,448 billion euro.

However further analysis of the data revealed considerable differences between the rates of enterprises across individual countries (Table 2.3). The figures show that in some parts of the EU enterprises in the micro-sector and sole-proprietor category were more prevalent than in others. Overall, the percentage of enterprises in this category represented over half (50.4%) of the total

estimates for the EU (15). Enterprises in the sole-proprietor category were most prevalent in Belgium, where 71.0% of total enterprises were in this category, and in the U.K, where the estimate was 63.1%. Enterprises in the micro-sector represented 42.7% of total enterprises in the EU (15). These enterprises were particularly present in Portugal, where 90.2% of its total enterprises were in this category, followed by Austria with 54.3%. Interestingly, the figures for the micro-sector in Ireland (48.8%) reflected a similarity with both the Netherlands (48.5%) and Sweden (48.6%). In this respect, it was explained that the high net birth rates of enterprises experienced in Sweden, Ireland and the Netherlands during this time conformed to their dynamic development in recent years.

Table 2.3: Total numbers and percentages of enterprises by size category across the EU (1996 est.).

	% of enterprises					Total Enterprises (‘000s)
	0	1-9	10-49	50-249	250+	
A	31.9	54.3	11.4	2.0	0.4	224.3
B	71.0	23.9	4.3	0.6	0.2	521.3
D	34.9	53.0	10.4	1.3	0.4	3,348.6
DK	49.9	39.6	8.7	1.5	0.3	163.7
E	56.3	38.5	4.5	0.6	0.1	2,435.2
EL	53.7	43.8	2.2	0.3	0.0	733.2
F	50.6	42.5	5.7	1.0	0.2	2,321.8
FIN	54.0	39.8	5.1	0.9	0.2	203.7
I	52.5	42.9	4.2	0.4	0.1	3,798.8
IRL	36.6	48.8	11.9	2.2	0.4	76.9
L	40.9	45.5	10.9	2.3	0.4	19.0
NL	41.0	48.5	8.3	1.8	0.4	515.5
P	3.2	90.2	5.7	0.9	0.1	641.9
S	41.3	48.6	8.4	1.4	0.3	242.7
UK	63.1	31.4	4.6	0.7	0.2	3,339.4
Total EU-15	50.4	42.7	5.9	0.8	0.2	18,427.4

Source: EFILWC (2002:4)

The EFILWC (2002) report referred also to results from other estimates, which combined the development of the number of enterprises in the EU (19) [to include Iceland, Liechtenstein, Norway and Switzerland] between the years 1988 and 2000. The results showed that, although there was a recession in 1990 to 1993, the numbers of micro-enterprises in the EU (19) increased during this time, whilst the number of larger enterprises decreased. Moreover, this pattern of growth has continued in the micro-sector category. Secondly, the results revealed that those enterprises which created the most employment over this time period were also in the micro-sector

and that since 1995 employment recovery had started earlier in this category, whilst employment recovery in the larger enterprises yielded a significant increase only since 1997.

In conclusion, it is fair to suggest that enterprises in the micro-sector are of considerable significance to the EU. Indeed, recent estimates show that the rates of enterprise creation are on the increase across the EU. The CEC (2001a) estimated that in most countries the gross rates have exceeded 10%, and that all countries have experienced a positive net birth rate, and consequently an increase in the number of total enterprises. These estimates represented the number of start-ups as a percentage of the total enterprises, and as an annual average over the period 1995-2000.

- Employment by sector in the micro and small enterprise sector across the EU

The EFILWC (2002) noted four sectors within the micro and small enterprise categories (50 + employees), where employment shares accounted for more than 60% of the total estimates. These data were based on the European Labour Force Surveys of 1995 and 1996. The enterprises in these categories were involved mostly in: recycling, sale and repair of motor vehicles, in personal services, in hotels, and restaurants and in the construction industry. Other sectors of importance (which represented between 50 to 60% of total employment) included those in the wholesale trade and commission trade, in clothing and leather and in finance and insurance auxiliaries. Unsurprisingly, the enterprises in these categories were mostly in the tertiary sector, with the exception of those involved in the construction and clothing industries. Furthermore, it was in cases where economies of scale and capital intensiveness were not of the utmost importance that enterprises were predominantly of small and micro-enterprise size.

Conversely, there were sectors where the micro and small enterprise categories represented less than 10% of total employment. Unsurprisingly, these included those in manufacturing, and most notably in electricity, gas and water, the motor vehicle industry or energy products, and a variety of those in the tertiary sector.

- Some common characteristics of enterprises in the EU

The EFILWC (2002) also noted some common characteristics amongst the enterprises in the EU. This data was obtained also from the European Labour Force Surveys of 1995 and 1996. Firstly, it was noted that smaller firms in the EU tended to employ more women, with the share of women working in micro-enterprises representing 44.3%, for enterprises employing between 11 to 49 employees the share was 41.2% and those with 50 or more employees the share represented 38.5%. These figures may reflect the greater flexibility in work practices (such as part-time, flexi-time or job-sharing) which characterise many smaller enterprises and may better suit women, in particular

those who have the dual responsibility of home and work employment. Furthermore, many small businesses are family businesses, where women may be involved either directly or indirectly in the management, operation and/or functioning of the enterprise.

Secondly, the existence of a relationship between age and size of enterprise was revealed. This relationship showed that the share of young workers aged between 15 and 24 years in the staff, was highest in smaller firms and this was applied to both men and women. Thirdly, there was a direct relationship noted between the share of men and women with a high level of education and the size of the enterprises in which they worked. The opposite was shown to be true for those people with low levels of education. This was explained by the fact that in most cases, larger enterprises usually have significantly higher labour costs per person employed, than is the case for small enterprises.

Fourthly, it was noted that the smaller the size of the enterprise, the more frequently were the incidences of people who worked on a part-time basis. As a result, permanent jobs were less frequent, the smaller the enterprise, and such was the case for both men and women across all economic sectors. Consequently, the share of persons staying within the same enterprise for over 10 years was higher the larger the enterprise size. These patterns may reflect the tendency for small enterprises to remain small, to employ informal workers and/or family members and to depend on flexible work practices.

- The implications of EU enlargement for SMEs

In 2004, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Malta, Poland, Slovakia and Slovenia will become members of the EU, followed by Bulgaria and Romania in 2007. An expansion of the EU will have considerable effects on entrepreneurship policy, the numbers of enterprises, the location of export markets and the levels of entrepreneurship in the EU.

The candidate countries endorsed the European Charter for Small Enterprises in Slovenia in 2002, which included an agreement to report on the implementation of this Charter for their individual countries. Furthermore, they were required to adopt the 'acquis communautaire' (i.e. the body of EU legislation) as one of the requirements for entry into the EU. According to the First Report on the implementation of the European Charter for Small Enterprises (CEC, 2001b), small firms in the candidate countries have been rated highly, indicating the significance of small firms in these countries. Moreover, the creation of a larger EU is expected to be positive, as it will expand the existing market for enterprises and in turn should create considerable opportunities for European entrepreneurs.

A study commissioned by the CEC (2000a), examined the impact of Czech Republic, Cyprus, Estonia, Hungary, Poland and Slovenia on SMEs in the EU. The study concluded that the macroeconomic consequences of enlargement for the EU would be moderate. More specifically, positive model simulations suggested that the enlargement of the EU should add about 0.2% to overall GDP growth. Consequently, the economic environment for SMEs should improve, although it included that the impact through this medium would also be moderate. More specifically, enlargement should result in more opportunities for SMEs, particularly in the services sector where there should arise opportunities in the business and financial services, and in the tourism and transport services.

Although many of the conclusions reported were positive, highlighting the considerable improvements in the integration of education and entrepreneurship, the reduction of administrative burdens and the establishment of one-stop-shops, further improvements were identified as needing attention. These included in particular, access to finance, the encouragement of innovation, improvements in enterprise policy and a better regulatory environment for entrepreneurs.

- Comparison of enterprises by size and employment in the EU (15), Japan and the U.S.

The figures in Table 2.4 show a comparison between the rates of enterprises in the non-primary sector between the EU, Japan and the U.S. Smaller enterprises were shown to be more important in the EU than in Japan and the U.S. On average a European enterprise provided employment to 6 people, whilst the corresponding figures were 10 and 19 in Japan and the U.S. respectively (EFILWC, 2002). Moreover, the estimates showed that SMEs provided two thirds of total employment in the EU (15), compared with only 42% in the U.S. and 33% in Japan.

Table: 2.4: Employment shares by size class in non-primary, private enterprises, in EU (15), U.S. and Japan, 1996.

	Employment shares by size classes					Total employment (1000s)	Occupied persons per enterprise
	Micro	Small	Med-sized	Total SME	LSE		
Eu-15	33	19	14	66	34	111,800	6
USA	11	19	12	42	58	105,240	19
Japan	n/a	n/a	n/a	33	67	57,345	10

Source: EFILWC (2002:12).

2.4.3: Measuring the level of entrepreneurship in a country

The data in the preceding section showed the different rates of enterprises by sector and employment size across different countries in the EU and included some comparative figures for Japan and the U.S. Although the figures gave an overall impression of the significance of enterprises in the micro-sector across these locations, they did not reveal how entrepreneurial any

particular country was. One cannot suggest that if a country has high rates of enterprise creation and/or development it is very entrepreneurial or vice versa. This is because entrepreneurship is treated in this study as a far broader concept than simply the creation of an enterprise (Chapter 4). With this in mind, the question is asked, can the level of entrepreneurship be measured in any one location and, if so, how can this be done?

By reference to an eclectic theory of entrepreneurship, Audretsch et al (2002) explained that the level of entrepreneurship in a particular country could be explained by making a distinction between the supply side (labour market perspective) and the demand side (product market perspective; carrying capacity of the market) of entrepreneurship. They noted that elsewhere this distinction is sometimes referred to as that between push and pull factors. The demand side of entrepreneurship is influenced by a range of factors, which included the stage of economic development of a country, the consequences of globalisation and the stage of a country's technological development. On the other hand, the supply of entrepreneurship is influenced by the demographic characteristics of a country, which may include the numbers of economically dependent people, the composition of the labour force, and the spatial dispersion of population. These distinctions differentiate clearly between the rates of enterprises in a country, which are influenced by the demand for such enterprises, and the corresponding levels of entrepreneurship present amongst a country's population, which can be influenced by macro-economic forces that are often beyond the direct control of national governments.

Notwithstanding the above influences, there are many additional factors which can determine how entrepreneurial a location is. These factors include, but are not limited to, the following:

- Favourable GDP rates;
- Rate of immigration and migration;
- The presence of existing enterprises and entrepreneurs;
- The rate of entrepreneurial legitimacy in a society;
- The regulatory environment (ease of start-up, expansion and decline; favourable tax environment);
- Ease of access to seed-capital and working capital;
- The presence and density of institutional supports;
- The availability of entrepreneurship training and business management training;
- The inclusion and encouragement of entrepreneurship in education (at all levels);
- The level of community entrepreneurship.

With the above factors in mind, the question is raised as to how entrepreneurial is Ireland and how can this be measured?

- How entrepreneurial is Ireland?

How entrepreneurial is Ireland?, was the title of three consecutive reports published by the 'Global Entrepreneurship Monitor' in 2000, 2001 and 2002. The three written reports for Ireland, were compiled by Fitzsimmons et al (2000, 2001, 2002) and were carried out to facilitate the benchmarking of the entrepreneurial propensity of the Irish adult population, in comparison with a number of other countries which were involved in the study. The report of 2001 sought to answer the following questions: i) are there differences in the levels of entrepreneurial activity between countries, and, if so, to what extent? ii) do the levels of entrepreneurial activity in a country have an effect on its rate of economic growth and prosperity? and, iii) what makes a country entrepreneurial? The methodology employed in the 2001 report to answer these questions included a survey of 2,000 adults, interviews with at least 36 key informants on a selection of aspects on entrepreneurship, questionnaires which were completed by those interviewed and, finally, a selection of comparable national economic data from sources such as the Organisation for Economic Cooperation and Development (OECD), the World Bank and the Global Competitiveness Report.

In answer to the above questions, the results found that the levels of entrepreneurial activity did vary between countries. More specifically, there were notable differences between developing countries, where entrepreneurship was most likely to occur as push or necessity entrepreneurship, and the more developed countries, where entrepreneurship was most likely to occur as pull or opportunistic entrepreneurship. Interestingly, the relationship between economic growth and levels of entrepreneurship was unclear, and could be clearly demonstrated only in the less developed countries.

The GEM report used a broad meaning of entrepreneurship, defined as "any type of entrepreneurial initiative, including self-employment". It further distinguished between nascent entrepreneurs, defined as "those actively planning to become entrepreneurs and taking some specific actions to bring this about", and, new firm entrepreneurs, "those who have set up a new enterprise in the 42 months prior to the carrying out of the adult population survey" (ibid, 2001:5).

The countries which were involved in the report of 2001 are listed in Table 2.5 and are used to compare with the levels of entrepreneurship in Ireland. The countries involved were divided into two broad categories: those which were identified as having less entrepreneurial activity (low group) and those with more entrepreneurial activity (high group). Ireland was included in the high group category, together with countries such as the U.S., Korea, Italy, Brazil and Argentina. Interestingly, countries in Southern Europe, such as Portugal and Spain, were identified in the low group, in contrast with earlier suggestions of their high entrepreneurial levels, particularly with

regard to the micro-sector. Such results suggest how difficult it is to compare levels of entrepreneurship across countries, and, furthermore, that different studies regarding the measurement of entrepreneurship and enterprise creation may conclude conflicting results. Furthermore, these results reinforce the need to embrace a broader meaning of the term entrepreneurship and to recognise the many factors which influence the levels of entrepreneurship in any one location.

Table: 2.5: GEM countries categorised on the basis of their entrepreneurial activity

Low group (i.e. less entrepreneurial activity)	High group (i.e. more entrepreneurial activity)
Belgium Denmark Finland France Germany Israel Japan Netherlands Norway Poland Portugal Russia Singapore Spain South Africa Sweden United Kingdom	Argentina Australia Brazil Canada Hungary India Ireland Italy Korea Mexico New Zealand United States

Source: Fitzsimons et al (2001:11).

The overall entrepreneurial ranking for Ireland placed it in sixth place across the 29 GEM countries. This ranking referred to the number of nascent entrepreneurs and new firm entrepreneurs identified amongst the Irish adult population. Although there was a far greater number of Irish entrepreneurs identified as planning new enterprises who had yet to establish their enterprise at that time, a similar result was reflected across the 29 countries involved in the study. Further results for Ireland, together with a number of select results for the other countries involved, are shown in Table 2.6.

Table: 2.6: Summary of the GEM (2001) results for Ireland

Selective measures of entrepreneurial activity	Highest rate of all GEM countries	Average rate of all GEM countries	Lowest rate of all GEM countries	Ireland's rate	Ireland's ranking
Total entrepreneurial activity	18.7% (MX)	9.7%	4.5%(BE)	12.0%	6
Nascent entrepreneurs	12.7% (MX)	6.3%	1.2% (IL)	7.2%	12
High growth nascent start-ups	7.0% (ZA/NL/NO)	2.6%	0.0%*	3.0%	10(+)-~
New firm entrepreneurs	7.2%(AU)	3.4%	0.8%(JP)	4.8%	6
Opportunity driven entrepreneurs	12.8%(NZ)	6.5%	2.0%(IL)	9.2%	5
Informal investors	7.0%(NZ)	3.1%	1.0% (NL/BR/JP/PT)	3.0%	12(+)-~

* No high growth nascent start-ups were identified in eight countries

~ More than one country was identified on this rank

MX= Mexico; ZA= South Africa; NL= Netherlands; NO= Norway, AU=Australia; NZ= New Zealand; BE= Belgium; IL= Israel; JP= Japan; BR= Brazil; PT= Portugal.

Source: Fitzsimons et al (2001:24).

More specifically, 7.2% of the Irish adult population were identified as nascent entrepreneurs, or using the given definition “currently engaged in the process of starting a new business”. This ranked Ireland in twelfth position across the 29 GEM countries.

Furthermore, when the percentage of active entrepreneurs was translated into numbers of people within the adult population and between the ages of 18 and 64, the results revealed that over 160,000 adults were currently engaged in the process of starting a business in Ireland. In addition, 4.8% of the adult population were identified as “currently partly or fully own [ed] and operate [d] a business started since 1998” and they were therefore categorised as new firm entrepreneurs. This result ranked Ireland in sixth position across the 29 GEM countries. This result translated into a total of 110,000 adults who were placed in this category. Moreover, almost 5,000 adults believed at that time that the new venture which they were currently planning would employ at least 50 people after 5 years from the start of the new enterprise.

In relation to those individuals amongst the Irish adult population who were identified as responding to a perceived opportunity, rather than being forced to do so through necessity, Ireland was ranked in fifth place. Again, this was a positive result, when one considers that it is better to be an opportunistic entrepreneur, rather than being forced into entrepreneurship for the sake of necessity.

Overall, only 3% of all start-ups were perceived by their owners as having high growth potential, which was defined as, aspiring to employ 50 people within 5 years. This ranked Ireland in joint tenth place. Furthermore there were just under 3% of the Irish adult population identified as business angels, or those who had invested in an entrepreneurial venture which was not their own. This placed Ireland joint twelfth and just above the average (3.1%) across the 29 GEM countries.

Although the report placed Ireland in a strong position in comparison with the 29 GEM countries involved in the study, it also highlighted the factors which were of concern to Ireland and which may hinder future entrepreneurship levels. Firstly, it was noted that Ireland ranked only tenth in the 2002 World Competitiveness Yearbook for the competitiveness of its environment for business. The main reason given for this was its infrastructural inefficiencies, and the consequent influence on entrepreneurship.

As part of the methodology process, 36 Irish experts were interviewed and asked to select three framework conditions which they considered to have the most significant impact on the entrepreneurial sector in Ireland. Together they noted the following three areas: i) financial support, ii) cultural and social norms and iii) government policy. The areas identified were broadly consistent with the concerns raised from informants in the other countries. The results from the comments of the Irish informants were then compared with the average scores for the other GEM countries (Table 2.7).

Table 2.7: Three framework conditions used in the GEM (2001) report– a comparison

Variable description	High score	Average score	Low score	Ireland score	Ireland rank
Finance – ease of access	4.10 (US)	3.12	1.79 (AR)	3.64	5
Finance – presence of VC, business angel and other.	4.49 (US)	3.02	1.85 (BR)	3.66	3
Cultural and social norms	3.64 (US)	2.43	1.89 (SE)	2.99	3
Cultural and social norms- acceptance of career volatility	4.32 (US)	3.50	2.92 (JP)	3.61	9
Government policy	3.20 (DE)	2.71	1.37 (AR)	3.14	6
Government policy – ease, speed and lack of regulatory burden	3.54 (SG)	2.23	1.22 (AR)	3.24	2

Source: Adapted from Fitzsimons et al, 2002:27-29.

In relation to the first factor, i.e. financial support available to entrepreneurs, the results for Ireland were generally positive. Ireland ranked fifth in terms of the satisfaction rating amongst its experts.

However, the experts did highlight the difficulty in obtaining seed capital, and especially in accessing small amounts of money. In this regard, they made particular reference to financial institutions, and in particular the banks were noted for their level of disinterest in small-scale investment. The presence of venture capital and business angels in Ireland was generally positive, and Ireland ranked third in comparison with the other countries.

The influence of cultural and social norms placed Ireland third highest on this measure, which was a very positive result, as it suggested that there was a positive entrepreneurial climate for Irish entrepreneurs. Indeed the experts noted that the cultural and social norms in Ireland have improved considerably over the last decade. This was a significant result in light of a recent OECD (2000) report, which noted that it was the social, cultural and political factors in a country which influenced both the availability of entrepreneurial opportunities and the degree of risk-taking and mobility of resources. Nonetheless, in relation to the question of acceptance of career volatility, the informants placed Ireland in ninth place, just above the average score for the countries involved. This might suggest that the Irish still favour job security, as opposed to the risks involved in entrepreneurship.

On the measure of government policy support for entrepreneurship, Ireland was ranked in sixth place, which suggested that there was room for improvements in support to this sector. On a more positive note, the ease, speed and lack of regulatory burden experienced by Irish entrepreneurs was ranked second, which may reflect the positive changes that have occurred in the business regulatory environment in Ireland. However, on the negative side, the informants included a number of disheartening statements, which included a poor understanding of entrepreneurship amongst Irish policy makers and enterprise-supporting agencies. Furthermore they stated that agencies had stagnated and had become more bureaucratic and were not as risk-taking as they should be. In relation to existing enterprise policy, they stated that the focus of such was not on the encouragement of growth in the enterprise sector, and in this regard they noted the difficulties experienced by new Irish entrants in the Irish market. Finally, and also worrying, were references made to the lack of real understanding of the issues facing growth-orientated entrepreneurs in Ireland.

The report also highlighted a number of other factors previously identified as being significant for entrepreneurship in any location. Such factors included the importance of education and training. It noted that for those countries where opportunity entrepreneurship was the dominant motivator, the greatest level of entrepreneurial activity takes place amongst those who have completed their second level education. Furthermore, it noted that women with the highest levels of education were the most active in pursuing entrepreneurial opportunity.

The report concluded that economic success in a country is increasingly associated with entrepreneurship. With this in mind, they included a number of recommendations which would improve the levels of entrepreneurship in Ireland. The recommendations included: i) entrepreneurship should be championed at national level; ii) there should be the removal of barriers to and the encouragement of female entrepreneurship; iii) education and training initiatives should be provided to help those wishing to pursue entrepreneurship; iv) any gaps which were present in the availability of pre or start-up seed capital should be addressed; v) more venture capital should be encouraged; vi) there should be a transfer of research, technological development and innovation investment currently being implemented into new entrepreneurial initiatives; and last but not least, vii) the physical and telecommunications infrastructure in the country should be addressed.

2.5: Entrepreneurship and geography

It is argued that any study which endeavours to create a comprehensive understanding of entrepreneurship should be multidisciplinary in approach and understanding. For this reason, many disciplines, including psychology, sociology, economics, management studies, business studies and geography, have contributed to the understanding of entrepreneurship. In geography, entrepreneurship is most often considered in the field of economic geography and it is noted that there have been some changes in economic geography which have influenced studies focusing on entrepreneurship and geography.

Stam (2002) noted that in the past, approaches in economic geography tended to keep the economic system distinct and therefore separate from the social, cultural or political sphere. Consequently, many studies in entrepreneurship have attempted to focus exclusively on one sphere, which in many cases was the economic, without consideration of the many other factors which influence entrepreneurship.

More recent approaches in economic geography tend to view these processes as being mutually dependent, as opposed to distinct and isolated from one another. Consequently, studies which integrate entrepreneurship and geography consider the social, economic, political, environmental and cultural factors which are thought to influence entrepreneurship. Therefore, what emerges is a non-distinct boundary between the economic, social, political and cultural, which Stam (2002) explained [that this move] has been labelled the cultural turn, the socio-cultural turn or the institutional turn.

Moreover, within economic geography, context is increasingly developed as a “new core concept of social and economic development” (ibid, 2002:3). Indeed, context is identified as a crucial factor in explaining the relationship between entrepreneurship and geography. For this reason, it is argued

that entrepreneurship should be examined in relation to the context under which it emerges and develops. Thus, in the discipline of geography, context is dealt with by examining the environment of the entrepreneur, which includes the social, cultural, psychological and economic factors which influence the emergence of the entrepreneur and the creation and development of their enterprises, and, the competitiveness of the territory in which entrepreneurship is pursued.

More traditional to geographical studies is the examination of the spatial context under which entrepreneurship emerges, that is how enterprises are located and organised in space. Consequently, a variety of location factors have been proposed (e.g. Storey, 1994), which help to explain the rates of enterprise and the resulting entrepreneurial levels in different locations. Additionally, geographers examine the interaction of entrepreneurs with their external environment and how this interaction influences their business creation and development. Therefore an examination of entrepreneurship within the discipline of geography allows one to reject the narrow meaning of enterprise, which tended to focus on the economic contribution of enterprise creation, and to embrace a broader meaning, which allows scope to examine the influence of entrepreneurship on the many facets of the environment.

2.6: Conclusions

The focus of this chapter was on developing a better understanding of micro-enterprises. The foundation for this understanding was developed by reference to the definitions, development and significance of micro-enterprises across a variety of locations. The chapter introduced a definition of micro-enterprises across a selection of locations. A variety of conceptual issues were addressed, such as what is size and where is the dividing line between micro, small, medium and large enterprises. In recognition of the range of definitions across different locations, a model illustrating a continuum of enterprises was presented (Fig. 2.1), and, it was argued that micro-enterprises are universally characterised by relatively low levels of capital investment, a high degree of risk, a dependency on family employment and a preference for home-based locations. These factors will be considered with reference to the profile of micro-enterprises in a later chapter (6).

Secondly, it was noted that small firms have not always been so widely regarded. The re-emergence of the small firm was traced to the post 1970s, to a period known as the Post Fordist period of production. Following this, the demand and supply-side factors which have been identified to explain the re-emergence of small firms was presented.

An attempt was made to compare and contrast rates of micro-enterprises across locations and it was explained that there are a number of difficulties in making such comparisons. Despite the many difficulties noted, a comparison of rates of micro-enterprises between Ireland and the U.K., Ireland and the EU and Ireland, Japan and the U.S.A. was presented. In particular it was recognised that

European enlargement would create considerable opportunities for entrepreneurs, by adding to GDP levels, improving the economic environment, improving competitiveness and creating more opportunities for SMEs.

Although, the rates of micro-enterprises were shown for a variety of locations, it was argued that such rates alone do not demonstrate how entrepreneurial any particular country is. Therefore it was explained that the term entrepreneurship should embrace a broader meaning which identifies a variety of factors as important in influencing entrepreneurship. Consequently, the results of a recent GEM report (Fitzsimons et al, 2001) were presented to reveal the levels of entrepreneurship in Ireland.

Finally so as to investigate the link between entrepreneurship and geography, the changing traditions in the field of economic geography were noted. It was noted that studies which integrate entrepreneurship and geography consider the social, economic, political, environmental and cultural factors which are thought to influence entrepreneurship.

Chapter 3: Research methodology

3.1: Introduction

The aim of this chapter is to outline the methodology employed for the research study. The chapter introduces the case study areas by examining social, economic and demographic information of relevance to understanding the environment for entrepreneurship in the three locations. Following this, the research design is introduced to explain the methods used in the research process. The design, administration, response and analysis of the questionnaire survey is outlined, to provide a comprehensive understanding of the research process. The statistical tests used in the analysis are explained. The collection of qualitative data is examined, with reference to the interviews conducted with the entrepreneurs and the organisations. Lastly, some limitations to the study which have arisen during the research process, are outlined, to guide further research of this nature and in the field of entrepreneurship.

3.2: Case study areas

The research areas selected for the study were Counties Mayo, Monaghan and Wicklow. At the outset, it was decided to select one county from three different regions in the Western, Border and Eastern parts of the country, to compare and contrast the entrepreneurial environment across quite different locations. Underlying this choice of locations was a hypothesis that this geographic difference might translate into variations with regard to enterprise formation and local development. The regions refer to the eight regional authority NUTS 3 regions in Ireland. The study areas chosen were, Co. Mayo located in the West Region, Co. Monaghan in the Border Region and Co. Wicklow in the Mid-East Region. For the purposes of EU structural funds distribution, further regional divisions have placed Co. Mayo and Co. Monaghan in the Border, Midlands and West 'Objective One' region of Ireland i.e. areas which are lagging behind, whilst Co. Wicklow has been located in the South and East 'Objective one in transition' region. Thus Counties Mayo and Monaghan are located in less developed areas, whilst Co. Wicklow is located in the more prosperous and developed part of Ireland. County Mayo is the third largest county in Ireland with an estimated area of 558 605 hectares, Wicklow is smaller, covering an area of 202 662 hectares, and Monaghan the smallest of the three counties, covers an area with 129 508 hectares.

3.2.1: The distribution of organisation supports

In Table 3.1, the distributions of the enterprise-supporting organisations involved in the study are outlined. The distribution of agency supports reveal that Co. Mayo had the highest number of

agency supports. The Industrial Evaluation Unit (1999), in an evaluation report, concluded that enterprises located in the poorest regions in Ireland were receiving the highest intensity of agency support. It added that the highest agency to micro-enterprise ratio existed in the Border, Midlands and West Regions (BMW), whilst the lowest was found in the Mid-East.

Table 3.1: The distribution of LEADER Companies, CEBs and Partnership Companies in Counties Mayo, Monaghan and Wicklow

County	Region	LEADER Group	CEB	Partnership
Mayo	West	3~	1	1
Monaghan	Border	1*	1	1
Wicklow	Mid-East	1	1	1#

~ In Co. Mayo the three LEADER Companies which were used in the survey were 'Comhar Iorrais (LEADER) Teoranta', 'South West Mayo Development Company' and 'Western Rural Development Co. Ltd'.

* In Co. Monaghan there is a joint LEADER group 'Cavan-Monaghan Rural Development Ltd.' which represents both Co. Cavan and Co. Monaghan.

In Co. Wicklow the name of the LEADER Group was 'Wicklow Rural Partnership Ltd.'

In Table 3.2, the ratio of micro-enterprise agencies to micro-enterprises in the three locations is shown. The figures reveal that Co. Mayo had also the highest density of agencies to support the number of micro-enterprises, in comparison with the other two locations. Wicklow in the Mid-East Region, had over twice the number of micro-enterprises per agency in comparison with Co. Mayo.

Table 3.2: Micro-enterprise support in Counties Mayo, Monaghan and Wicklow, 1999

County	Region	Number of agency offices	Number of micro-enterprises	Number of micro-enterprises per agency
Mayo	West	5	1515	303
Monaghan	Border	2*	766	383
Wicklow	Mid-East	3	1838	613

Source: I.E.U. (1999:43).

* Does not include the LEADER Group

The figures shown in Table 3.2 do not support the view that a higher number of agency supports in a location will necessarily lead to greater numbers of micro-enterprises. Nonetheless, it is argued that a higher level of agency support for the micro-enterprise sector may be required, particularly in poorer regions in Ireland, such as in parts of Co. Mayo and Co. Monaghan, because of the many disadvantages encountered by the entrepreneurs in their external environments. Such disadvantages are examined in Chapter 6.

3.3: The research design

The research design focused on the following aspects of data gathering:

1. The formation of a theoretical conceptual framework for the study, which involved a literature review pertaining to many disciplines, including geography, economics,

sociology, psychology, entrepreneurship studies, organisational behaviour, business leadership and management studies;

2. The collection of relevant data on the three locations, which included the number and type of institutions in the locations, specific demographic characteristics and socio-economic statistics;
3. The empirical research was focused on three categories of organisations (LEADER Companies, County Enterprise Boards and Partnership Companies) operating in three counties;
4. The questionnaire survey established the main body of data, and these data were received from responses by entrepreneurs who had interacted with the external institutions selected for the study;
5. Semi-structured interviews were conducted with entrepreneurs, representatives from each of the institutions and a selection of individuals who had expertise in a particular area relating to entrepreneurship and/or organisational supports.

The research was therefore focused on obtaining both quantitative and qualitative information relevant to the research objectives. At the outset, it was deemed useful to speak to a number of institutional personnel regarding the objectives of the research. This was done also to formulate a good working relationship with those who were directly involved with the research, and to clarify a number of research queries concerning entrepreneurship and/or institutional supports for micro-enterprise development. The initial contact with the institutions was made by a formal written letter. The letter (Appendix no. 3) outlined the objectives of the study and the request for a dataset of clients, to include the names, addresses, type of grant approved, project sector and date on which capital or assistance was granted, plus other written materials of relevance to the study. From this it was explained that a random sample of 100 entrepreneurs would be selected for inclusion in the survey. The LEADER Companies were requested to forward the datasets covering the LEADER II programme, whilst the datasets from both the CEBs and the Partnership Companies were requested from the period of establishment. The letter stated also that the researcher was in no way linked to any government or other official organisation, and complete confidentiality was therefore guaranteed. In addition, it was stated that a description of the projects together with the actual amounts received or not as the case may be was not required, as these queries would be included in the questionnaire survey.

In the majority of cases, the manager passed on the letter to other relevant individuals in the organisation. In all cases these individuals were responsible for enterprise advice, assistance and project evaluation, and were thereafter involved with this research. Three individuals within the organisations also gave advice on how the research should progress and wished the researcher luck

in her research. In two cases, the researcher was offered access to M.A. theses written by the organisational personnel and a spoken summary of individual research interests.

After the initial request, the majority of the organisational personnel contacted the researcher for further clarification of a number of details, and to approve or disapprove of certain aspects of the research. The queries concerned the confidentiality of clients (2) and to ensure that the researcher was indeed no part of a government organisation (1). It was acknowledged that Partnership clients were protected by the 'Social Welfare Protection Act' which ensured the confidentiality of all clients. For this reason, the three Partnership Companies requested that the surveys be distributed by them, to protect the identity of the clients. In one such case, a cover letter was included by the Partnership, stating that the research was not related to the particular organisation and was entirely for the researcher's academic purposes.

One LEADER Company requested that the researcher write a letter agreeing to the following criteria: "i) The information is to be used only for your research, and should not be duplicated and/or distributed by you ii) no names are to be used in your thesis iii) should you wish to contact any of the beneficiaries, you should not pursue them in any manner if they do not wish to respond to your requests". The letter included: "this company publishes details of all grants in its newsletters and annual reports. Information other than that published is not released to the public and your request is now being acceded to after some consideration by the chairman and other members of the Board". The criteria for receiving the data were adhered to, and a letter stating acceptance of the conditions proposed was sent to the particular organisation.

The data received from one LEADER Company covered only the period from June 1998 to February 1999, and in this case a second request obtained the data needed for the research. One other LEADER Company requested that the researcher await the publication of such data (July 1st) and this was accepted as the list of project promoters was published prior to the administration of the questionnaire surveys. A further dataset received from a LEADER Company listed only 56 names, as the LEADER Company was combined with another county. In one other case, the initial dataset received from a CEB included the names of the clients but without the addresses of the project promoters. As a result, a second request was made for the data and this was successful.

In most cases, the datasets were received by hardcopy, and in three cases by e-mail. In instances where a hardcopy of the dataset was received, the names were typed using Microsoft Excel, a database software package considered to be useful for systematic sampling, and for merging with Microsoft Word for the design of the address labels.

3.4: The questionnaire survey

It was decided that the best method to collect the data needed for the research was by designing and administering a questionnaire survey (Appendix no. 1) and cover letter (Appendix no. 4). The survey was designed with the objectives of the study in mind, and it was mailed to a pilot sample of 15 micro-entrepreneurs who had interacted with the three organisations (Appendix no.2). From this pilot sample, 5 completed questionnaires were returned for analysis. Any identified issues and problems noted from the pilot survey were considered in the administration and design of the completed survey.

At the beginning of the questionnaire survey a written statement was included which informed the respondents that the information provided would be used solely for compiling data for academic purposes and that it would be treated with strict confidentiality. In addition, the respondents were asked to write 'non-applicable' alongside any questions which were deemed irrelevant to them. The questions were designed with the following objectives in mind:

- *The micro-enterprises* – To examine the profile of the micro-enterprises, the level of employment creation, the export activities, the level of innovativeness and the entrepreneurs' wish to alter the enterprises in the future.
- *The external environment for entrepreneurship* – To investigate the entrepreneurs' view of the external market, the perceived threats, constraints and main opportunities facing the enterprises, and the main advantages and disadvantages of the region/county/local area for the type of enterprises.
- *The institutional supports for micro-enterprises* – This section sought to explore a number of issues: how the entrepreneurs became aware of the organisational supports available in the external environment, the greatest help received from the supports, the level and method of contact with the organisation and the amount and source of funding received for the enterprise. Furthermore, the entrepreneurs were asked to indicate the level of attendance at organised training courses/workshops provided by the organisation/s, to investigate the level of satisfaction with a selection of supports, together with the greatest obstacle/s encountered in the interaction with the organisation/s. The likelihood and existence of deadweight amongst the projects supported were also examined, to indicate the importance of the support/s received from the organisation/s. Finally, the entrepreneurs were given the opportunity to state the types of supports or assistance absent at present which they would like to see introduced in the future.
- *Motivation for becoming an entrepreneur* – This section sought to explore the internal environment of the entrepreneur and examine the motivation/s for becoming an entrepreneur. The main reasons for starting an enterprise, the previous employment status, the position in the enterprise, the reasons for choosing a particular type of enterprise and

where the idea to set up the business came about were investigated. The entrepreneurs were asked also to state the factors which most influenced the choice of location for the enterprise, and the desire to remain, or in hindsight, to change the present location of the enterprise. In addition, the entrepreneurs were asked to rank the main factors which were considered to be most important for people setting up an enterprise.

- *The personal characteristics of the entrepreneurs* – This section investigated the personal characteristics of the entrepreneurs and included the collection of demographic data such as gender, age and marital status. The entrepreneurs were asked to state the birthplace, previous place of residence and last place of residence, to investigate any link between mobility and entrepreneurship. The previous business experience, size of business which the entrepreneurs worked most often with as an employee, together with the highest educational qualifications and training completed were also examined, to highlight any relationship or link with entrepreneurship. A further exploratory question examined the entrepreneurs' perception of the contribution which education and training had made to the success achieved in entrepreneurship. A general question examined the reason/s why and how the individuals became entrepreneurs, and a more specific question asked the entrepreneurs to indicate the main factors which were considered to be their priority goals. Lastly, the entrepreneurs were asked to indicate the involvement of family members in the enterprise, to examine the importance of informal employment, help and/or advice in enterprise creation and/or development.

The term 'entrepreneur' was used throughout the survey, and no definition was provided as it was accepted that no universal or standard definition exists. Therefore, all owner/managers of small enterprises, be it commercial or social enterprises, were included and considered to be entrepreneurs. Similarly, in the questionnaire survey, the enterprise was in some cases (3) referred to as a 'project' as it is common for organisations to use this term when making reference to enterprises supported.

3.4.1: Design of questionnaire

The questionnaire survey consisted of a variety of both open-ended and closed questions, the majority of which could be answered by a simple tick, so as to lessen the length of time it would take to complete. At the outset, it was considered important to include open-ended questions, and this inclusion proved very valuable, as the entrepreneurs were allowed scope to provide whatever information was important, and that which the researcher may not have anticipated at the stage of the questionnaire design. The responses included personal experiences and perceptions of the interaction with external organisations, and therefore helped to build a better picture of the interaction and entrepreneurial process. An example of an open-ended question included in the

survey was Q41, which asked the entrepreneurs to describe in their own words why and how they became an entrepreneur. In other cases, closed questions were deemed appropriate.

As there was a great variety of responses to the open-ended questions, the most mentioned responses were grouped into specific categories for analysis. In cases where respondents listed a number of responses, these were simply categorised as appropriate and the percentage of total mentions together with the percentage of total respondents was shown.

It is recognised that the responses to questions included in a survey may take several forms most commonly referred to as nominal (or categorical), ordinal and numerical (interval/ratio) measurements. Those questions which asked for the gender of the entrepreneur (Q35a), and if they had undertaken any training (Q38), yielded nominal data, as the responses fitted into specific categories. An ordinal scale was used in responses which showed an order or a level of importance amongst the responses. An example of this type was Q21, which measured the level of satisfaction with the overall level of assistance/support received from the relevant external agency. Thirdly, there were questions which sought numerical data, such as those which queried the age of the entrepreneurs (Q35b). In such cases, numerical data can either be continuous, such as age, or discreet, as in Q20 which asked the entrepreneurs to state the number of organised training courses/workshops which they attended, and similarly in Q17 which examined the frequency of contact between the entrepreneur and the organisation.

Fink (1995a) explained that categorical response categories should be both 'inclusive' and 'exhaustive', as researchers should include all the categories to which they hope to glean information. With this in mind, questions such as Q26 were included, which asked the entrepreneurs to indicate the main reason for starting the present enterprise, and, with the entrepreneurs choosing one from a list of seven categories. Furthermore, questions which allowed entrepreneurs the opportunity to rank the selected responses were also used, such as in Q33, where the entrepreneurs were asked to rank the main factors which they considered important for people setting up a business enterprise from a scale of 1 to 10. In this case the lowest (1) was the most important and the highest (10) was the tenth most important. In other instances, the entrepreneurs were asked what was the greatest help received from the organisations in developing/maintaining the business, and were asked to choose three from a list of eight supports (Q16).

The inclusion of a neutral category ('not sure') in Q22 was considered important in measuring incidences of deadweight, to allow for the possibility that some entrepreneurs were genuinely unsure as to whether the project would have gone ahead without financial assistance from the external agency. Similarly, the inclusion of two categories 'none received' and 'non-applicable' were used in Q23 to allow the entrepreneurs to indicate which supports were received, not received

or non-applicable as the case may be. In the same respect, the 'other' category was used in some questions (Q15, Q26, Q29, Q30, Q33, Q37, Q43) to allow the entrepreneurs to include additional responses which were absent from the questionnaire.

As the focus of the study was on interaction, it was considered important to include questions which would try to measure the entrepreneurs' attitudes and behaviour with regard to experiences of interacting with the organisation/s. To test the entrepreneurs' attitudes and experiences in interaction with the organisation/s, the entrepreneurs were asked to indicate how strongly they felt about the help that was received. In this respect, the entrepreneurs were asked to indicate whether they were very satisfied, satisfied, dissatisfied or very dissatisfied (Q23). In another case, the entrepreneurs were asked to include the contribution which education and training had made to the success achieved as an entrepreneur (Q39). In order to test the behaviour of the entrepreneurs in the interaction process, they were asked to state the frequency and method of interaction with the organisation (Q17) and with subsequent and/or alternative interaction with another organisation/s (Q19). In the same respect, to test opinions and knowledge about supports which did not exist in the environment, the entrepreneurs were asked to state the supports which were absent at present which they would like to see introduced (Q25).

Questions which requested specific demographic information were also included (Q 35a, b, c, d), to examine the gender, marital status and age at which the entrepreneurs established the enterprise. Similarly, it was considered important to examine the entrepreneurs' mobility patterns and so Q36 was included to investigate the entrepreneurs' birthplace, previous place of residence and last place of residence. The educational attainments and training completed were requested in Q37 and Q38, together with previous employment status/occupation (Q27). The last question (Q45) allowed the entrepreneur scope to provide additional comments concerning the project or LEADER/CEB/Partnership Companies. The outcome was a questionnaire with a total of 45 questions to be sent to a sample of entrepreneurs who had interacted with the three organisations.

3.4.2: The Random sample

Erickson and Nosanchuk (1992) stated that in order to receive an unbiased and representative sample it is best to select the sample randomly. In this respect, it was decided to select a random sample of 100 from each of the datasets provided by the organisations. A systematic sampling procedure was used, such that from a dataset with 300 entrepreneurs the interval of three was chosen, so that the first name was selected on the list and every third name thereafter, until a list of 100 names was collected and selected for inclusion in the survey.

In the initial postage of the questionnaires there was a total of 1056 questionnaires posted and 116 completed and returned. A follow-up cover letter (Appendix no. 5) and questionnaire were sent to those who had not responded to the initial approach. This ensured that a further 172 questionnaires were suitable for analysis. In the instance of one organisation only 2 questionnaires were returned from the initial and follow up sample of 100 and the Partnership Company concerned agreed to send a third sample. From this a further 4 questionnaires were returned. In this case, the sample was targeted three times so as to achieve a higher response rate, but this was deemed unsuccessful. The organisational personnel concerned requested if they could intervene by contacting the clients by phone, or by helping them to complete the questionnaire when they next approached the organisation. However, due to the nature of the survey, the potential for bias, and the guarantee that the researcher was not connected to any institution, this was deemed inappropriate. When the organisational personnel were asked as to why the response rate was so low, the opinion offered was that the questions may have been too complex for the clients and, in addition, it was suggested that there might have been individuals included in the sample who were known to the researcher. Nonetheless, the 6 questionnaires were included in the sample. Overall 288 questionnaires were deemed suitable for analysis, and representing a 27.3% response rate (Table 3.3).

Table 3.3: The distribution of the sampling frame used for the research analysis

Location	LEADER	CEB	Partnership	Total
Mayo	75	37	6	118
Monaghan	28	28	24	80
Wicklow	34	26	30	90
Total	137	91	60	288

There were a number of questionnaires (57) returned which were deemed unusable. Some of the entrepreneurs had moved location (14). In others there was a written statement included which informed the researcher that the survey was non-applicable to the project promoter (13). In other cases, the enterprise was no longer trading (9), some were returned blank (6), an insufficient address was provided (6), sufficient funding was not made available (3), some stated that the project was not an enterprise (2) and other enterprises did not go ahead (2). One entrepreneur returned the blank questionnaire with a note stating the desire not to become involved in the research and one other stated that the particular group had disbanded. In some other cases, a selection of information about the enterprises was returned with the completed surveys, and this included enclosed leaflets (3), website information and business cards (3), promotional material (2) and photographs (1).

One respondent mailed a letter to the researcher which contained the following written information:

“I was going to start a new venture ** but unfortunately owing to funding not coming quick enough and possibly my own fault for not applying more pressure on *, the business never got off the ground”.

* Denotes name or a specific type of enterprise. Such information is omitted to ensure complete confidentiality.

In one other instance a letter was sent explaining the reason why the survey was not completed and explaining:

“I think that the people concerned tried their best but that they needed to be able to call on expert advice in particular cases”.

In this case, the project promoter was interviewed, so as to glean more information concerning this issue, and to discover the reasons why it was stated that expert advice was not available within the organisation.

It was anticipated that, due to reasons such as confidentiality, an aversion to more form filling, time constraints and/or either very positive or negative interaction experiences with the organisations, the majority of the entrepreneurs included in the sample would choose not to participate in the survey. Nonetheless the response rate was disappointing though postal surveys normally do not yield a high rate of return.

3.4.3: Analysis of questionnaire responses

During the design of the questionnaire, a coding system was developed for the responses to each question. Those questions which could be answered by a simple ‘yes’ or ‘no’, were assigned a code of ‘1’ and ‘2’ respectively. In other cases, where the question included a choice of responses, a code of 1, 2, 3 etc. was assigned to each variable. Where there were cases of questions left blank by the respondent, a code of ‘9’ was assigned to highlight the particular missing response. It was anticipated that the respondents may choose not to answer some questions for a variety of reasons, which include confidentiality, sensitivity to a particular topic, misunderstanding the question, or that the question was either irrelevant or non-applicable to them.

3.4.4: Statistical tests

The statistical software package ‘SPSS’ version 10.0 was used for the analysis of the responses. This software allowed for many statistical tests to be carried out on the data. Once the data were entered into the SPSS database, the frequencies for each variable were analysed. The frequency or tally shows how many people fit into a particular category, and takes the form of a number or a percentage (Fink, 1995b). In two cases the mean was calculated to determine the arithmetic average amongst the observations. This was done in order to establish the average year of business

establishment and the average age of the entrepreneurs in the sample. The value of the observations which occurred most often is known as the mode, and this was calculated to show the year in which most of the enterprises were established.

Fink (1995c) explained that to determine statistical significance is to show that the difference between two or more variables are statistically meaningful and not due to chance. In keeping with tradition, the significance level (alpha value) for this research was set at 5.0% or .05. Where there were probability values (p value) found above this level it was accepted that there was not enough evidence to suggest that a relationship existed between the two variables.

- The chi-square test

The chi-square test allowed the researcher to compare the observed frequencies with the expected frequencies in a variable with two or more categories. The expected frequencies represented the numbers or proportions of responses in each cell when it was assumed that no relationship (the null hypothesis) existed between the variables. The observed frequency referred to the survey's data and represented the numbers or proportions of observations in each cell. Therefore the differences between the observed and expected frequencies were combined to form the chi-square statistic, and if a relationship existed between the column and row variables, the two were said to be dependent (ibid, 1995c). As a general rule, when there are three or more categories, the chi-square test is not used when the expected frequency is smaller than one, or when more than 20% of the expected frequencies are smaller than five (Bryman and Cramer, 1997). The output tables generated from the chi-square test showed the observed and expected frequencies, the Pearson chi-square statistic, the degrees of freedom, the significance level and the minimum expected frequency.

The chi-square test was used to answer the following questions (Erickson and Nosanchuk, 1992):

1. Was there a significant relationship between the row and column variables?
2. Were the observed values different from that which one would expect if there was no relationship, and if so, could it then be assumed that there was a relationship between the variables?
3. How strong was the relationship?

In many cases the chi-square test was used to determine if there was a relationship between variables. For example, the test was used to determine if there was a relationship between the project sectors and the location of the enterprises (Table 6.12) and, in another instance, to test the relationship between respondents' educational attainments and the organisations with which they interacted (Table 8.9).

A number of questions included in the survey allowed for multiple responses to be made to a single variable. In these cases, the questions used a number of indicators to measure one central query. The questions included one which measured the greatest help received from the organisation/s (Q16). In this instance, the entrepreneurs were presented with a list of eight supports and were asked to choose three from the list, and rank them in order of importance to the business. In another instance, in order to measure the levels of satisfaction and/or dissatisfaction with specific supports, the respondents were asked to indicate the level of satisfaction/dissatisfaction with a variety of supports provided by the organisations (Q23). So as to measure the factors which most influenced the choice of location for the enterprise, the entrepreneurs were presented with a list of 10 factors from which to choose eight, in the order of 1 = most important up to 8 (Q30). The entrepreneurs were asked to indicate the main factors which were considered important for people setting up an enterprise (Q 33), and in one other instance, the entrepreneurs were asked to rank the factors which were considered to be the highest goals (Q 43).

The questions of this type were analysed by using a Likert Scale. Bryman and Cramer (1997) explained that the procedure for analysing such multi-item measures was to aggregate each response in relation to each question and to treat the overall measure as a scale in relation to which each unit of analysis has a score. Therefore in cases where the entrepreneurs were presented with indicators such as very satisfied, satisfied, dissatisfied and very dissatisfied (Q23), they were asked to select the one which best represented their position. The responses to each item were then scored in the following way: 1 = very satisfied, 2 = satisfied, 3 = dissatisfied and 4 = very dissatisfied. The range of answers in this instance was between 1 and 6 (to include the choices of both 'none received' and 'non-applicable'). The individual responses were then given a weighting of 10, 9, 8 etc. to show the relative importance of each response. The analysis involved only those responses which referred to the supports used by the entrepreneurs, and in this respect did not include the 'none received' and 'non-applicable' categories. In this case, the score for the first variable 'financial support' received a response of 84 to the indicator 'very satisfied'. This response was then multiplied by 10 and the scores were then added to form an overall score. A code was assigned also to those responses which included a 'tick' as opposed to a ranked number 1-2-3. For these cases, the 'tick' was given a separate code according to the number of ticked factors for each respondent, as it was not possible to determine whether the response indicated a ranking of first, second or third position and so on. In such cases the number of ticked responses to each factor were added to form an average score and this was included in the overall score for each factor. This method allowed the researcher to include the ticked responses in the analysis, which was considered important to fully analyse the responses received.

3.5: Interviews

So as to obtain qualitative data for this research, a number of semi-structured interviews were conducted with the entrepreneurs (26) (Appendix no.10) and the organisations directly involved in the study (11) (Appendix no.11). In addition a number of other individuals (17) were interviewed because of their role in micro-enterprise supports and/or expertise in certain aspects of entrepreneurship, e.g. training, accounting, PR, the provision of micro-enterprise supports, the role of education, the role of a mentor, etc. (Appendix no. 12). The researcher also had the opportunity to speak with a number of people from other countries – Finland, Poland, Latvia and the U.S., about the research and micro-enterprise supports across different locations. In addition, two individuals who had contributed in many ways to the field of entrepreneurship were contacted.

There were a number of logistical difficulties with regard to the interviewing stage of the research. These included establishing contact with the interviewees, finding mutually suitable times for interviews, the constraints of having to use public transport and the financial costs of the fieldwork.

3.5.1: The interviews with the entrepreneurs

The interviews were conducted with the entrepreneurs after the questionnaires were administered and examined, so as to be able to follow-up on any issues and comments which were noted in the individual responses. A total of 30 enterprises from each location were selected for interview. The interviewees were selected on the basis of the following considerations: gender, age, native and non-native entrepreneurs, type of micro-enterprise, location of enterprise, type of organisation with which the entrepreneur had interacted, entrepreneurs who had experience of interaction with a number of organisations, the level of satisfaction/dissatisfaction as expressed in the questionnaire survey, entrepreneurs who had received funding and those who had not, entrepreneurs who had participated on other schemes (e.g. YES), enterprises which were experiencing growth, and, lastly, those which were experiencing difficulties.

The interviews were approached with the following considerations in mind:

- To develop and examine any problems/issues identified from the questionnaire survey;
- To explore the internal environment of the enterprise, the external institutional environment and the interactions between them;
- To examine the individual experiences in becoming an entrepreneur;
- To establish a connection between the quantitative and qualitative data to strengthen the analysis of the research data.

A letter requesting an interview with the entrepreneur was posted (Appendix no. 6), and the entrepreneurs replied by e-mail, telephone and letter to state acceptance of the opportunity to meet with the researcher. The responses from those entrepreneurs who agreed to be interviewed numbered only 28 and, once more, represented a somewhat disappointing return. Three interviewees requested that they be sent a copy of the completed questionnaire prior to the interview, to refresh and revise the responses to the questions in the survey.

The questions (Appendix no. 8) were established prior to the interviews, and, although it was anticipated that not all interviews would follow this exact structure, it was hoped that the information sought would be gleaned from each interview. Furthermore, a summary of the issues and comments noted by the entrepreneurs in the survey was compiled, so as to create a profile of the individual prior to the interview, and to identify further issues which were unique to each entrepreneur.

No set timeframe was established for each interview, as it was considered important to allow the entrepreneur the opportunity to include and develop issues of significance to them. Although some of the entrepreneurs spoke of the shortage of time which they could offer in advance of the interviews, there was no interview which could be considered rushed or incomplete. The discussions lasted between one and three hours, depending on the structure and location of the interview. In one case, the interview was conducted by chance when one respondent from the survey sample was introduced to the researcher in a community enterprise centre. In another instance, the entrepreneur agreed to meet with the expectation that the researcher was a “grants lady” (Enterprise no. 139). Although the interviewees were informed in advance as to the nature of the interviews and the research objectives, it was acknowledged from this response that some may still have believed that the researcher was indeed connected with an institution or official government organisation.

Although the interviews were guided by the questions, they were conducted in the form of conversations between the entrepreneurs and the researcher, when describing and explaining the experiences in becoming entrepreneurs and the subsequent experiences in interaction. The interviews were in turn recorded with the use of a Dictaphone, but permission was first sought from the interviewee prior to its use. There were no objections to the Dictaphone being used during the interview process.

So as to refresh the entrepreneurs’ memories, the interviewees were shown a copy of the completed questionnaire responses and a summary of the objectives of the research study. The interviews began with allowing the entrepreneur to tell the story of the decision to become an entrepreneur, the development of the enterprise and the awareness and subsequent interaction with the external

organisations. Therefore the interviews were focused on exploring any factors which influenced this interaction process. In response to the first question raised in the interviews, many of the entrepreneurs gave personal accounts or stories of the experiences in establishing the enterprise, interacting with organisations and becoming an entrepreneur. McMullan and Vesper (2000) suggested that first-hand accounts of entrepreneurial activity were valuable for understanding how individuals establish an enterprise. Furthermore, Coffey and Atkinson (1996:55) explained that stories could serve a variety of functions; on the one hand, they can be seen as highly structured pieces of information, and on the other hand they could be seen as “distinctive, creative, artful genres”. Therefore the personal accounts were analysed not only for the information they contained, but also for the mood and tone of voice of the entrepreneur when s/he described the interaction, the reaction to sensitive questions and the description of the positive and negative experiences in becoming an entrepreneur.

Coffey and Atkinson (1996) also stated that narratives could show how the interviewees used language to convey particular meanings and experiences. In this respect, many entrepreneurs used metaphors in the description of organisational personnel and interaction experiences. The metaphors used included references to the organisational personnel as ‘leeches’ (Enterprise no. 202), or ‘top-heavy’ (Enterprise no. 213). In reference to the interaction with the organisations, one entrepreneur drew a comparison to ‘jumping hurdles’ (Enterprise no. 176) and, in reference to a rejection of an application for support from an organisation, one entrepreneur described it as: ‘it could have been the straw that broke the camel’s back’ (Enterprise no. 154). The metaphors are included to demonstrate the applicability to the study and, to highlight the mood of the entrepreneurs during the interviews, the context in which they used them and what they implied to the researcher.

The application, approval and rejection process was investigated from the perspective of the entrepreneur. Subsequently, any good and/or bad points raised during the interview with regard to the experiences of interacting with the organisations were explored. The entrepreneurs who had dealings with one or more organisations were asked to compare the individual approaches, the methods for supporting micro-enterprises and the effectiveness in providing these supports. The entrepreneurs were asked to state why the enterprise was located where it was, and what were the advantages and/or disadvantages of the present location for the enterprise. As the interviews were conducted across three locations, it was considered important for the researcher to identify any differences between locations which became apparent during the discussions and to seek explanation for them. The final question to the entrepreneurs allowed scope to suggest improvements for supports to micro-enterprises in the future.

As anticipated, there were many instances of conflicting information collected from different respondents, which applied mostly to negative and/or positive experiences in interaction. In some cases, the interviewee spoke very positively about the interaction with a particular organisation, whilst in other cases an entrepreneur's interaction with the same organisation was perceived in a negative light. In this respect, it was interesting to note the reasons why this may have occurred and to seek an explanation for such contradictory experiences.

The interviews were a very valuable part of the research, as they allowed the researcher to probe a number of personal issues pertaining to entrepreneurship which were of relevance to the study, and in particular to the interaction process. Such issues included: the importance of confidentiality; the importance of trust in interaction; observations and comments from the entrepreneurs concerning the skills, education, knowledge and dress-code of the institutional personnel; the entrepreneurs prior anticipation of the interviewer; queries with regard to enterprise supports; and recommendations for supports which the entrepreneurs would like to see introduced to improve the environment for entrepreneurship.

- Experiences in 'getting to know' the interviewees

The majority of the interviews were conducted on a one-to-one basis, with the exceptions of one interview with a husband and wife team and another with a mother and daughter. Interviewing was done at the entrepreneurs' places of business and/or home-place and in two cases in the local community enterprise centre. The former allowed the researcher an opportunity to get a feel for the entrepreneurs' work environments. In some cases, the researcher was able to grasp the reality of working from home, by observing the presence of work (e.g. dried pieces of crafts) in every room in the house, or in two cases back sheds converted into the place of business. In all instances, the researcher encountered very friendly and facilitating people who were only too happy to contribute to the research study.

Some interviews involved a tour around the premises of the enterprise and this contributed to the length of time spent with some of the entrepreneurs. In one instance, the interview lasted several hours and included an invitation to the family home for dinner and an extensive tour around the business. Those who offered a tour of the business were very happy to give information about the establishment, nature and type of business that was 'theirs'! One could sense the entrepreneurs' pride and achievement during these tours, and grasp a feel for working in a small business environment.

Furthermore, there were cases where the entrepreneurs requested that the researcher return and/or to stay in contact to assess the expansion and development of the enterprises. The researcher

received three gifts from craft entrepreneurs and one entrepreneur offered the use of a summer cottage (part of the self-catering accommodation for the business) to write up the research. In another instance, the researcher received an invitation to attend a meeting of 'Macra na Feirme', and in many other cases the offer of transport to and from the business location and/or to the local bus station.

3.5.2: The interviews with the organisations

A letter was sent to the organisational personnel informing them of the researchers wish to interview them for the purposes of the research (Appendix no. 7). The majority of the personnel replied within a short space of time by letter, e-mail or telephone. Only in one case did an interviewee have to be followed up in two letters and three phone calls. In all cases, the individuals were interviewed at the location of the organisation. The interviews were recorded by use of a Dictaphone and in only one case was this denied at certain stages of the interview, in response to particular questions. In this instance, the information was recorded from memory immediately after the interview.

Although the interviews were structured by reference to a number of general questions prepared in advance (Appendix no. 9), the interviewees were allowed scope to highlight other issues of relevance to the research study. At the outset, the primary considerations identified for investigation included: the role of the organisation in supporting micro-enterprises, an exploration of what was considered to be the main challenges and issues facing micro-entrepreneurs, the level of co-operation and co-ordination of activities with other external organisations and lastly the identification of suggestions for improvements in supports for micro-enterprises.

Furthermore, the researcher had identified issues and results highlighted in evaluation reports, annual reports and international and national studies. Some of these issues were examined during the interview discussion and in response to the queries made during the interview process. The issues included examinations of the extent to which the organisations dealt with approaches made to them and which they sought out potential enterprises in the local area. The opinions as to what extent the jobs created would have occurred in the absence of organisational support, together with the perception of the flexibility or inflexibility of government support, were also investigated. Other social considerations were queried, such as how the organisations identified and supported those who are marginalised in society. Moreover, the operation of the organisation, which included the application, approval and rejection process, was investigated from the perspective of the organisational personnel. In a similar manner, the origins, extent and nature of the contacts made between the entrepreneurs and the organisations and between the organisations and other enterprise-supporting organisations were examined. In addition, any differences noted between

locations were investigated. Lastly, the interviewees were asked for suggestions for improvements in supports to micro-enterprises.

3.5.3: Analysis of interviews

After each interview the responses were listened to and transcribed for analysis. The responses raised a number of obvious themes and issues of relevance to the research. The issues that were raised in the interviews were examined and integrated within the thesis to strengthen and/or explain the overall comments and results. The organisational personnel were assigned numbers, in respect of the wish for complete confidentiality, and the entrepreneurs who were interviewed were identified by the numbers assigned to them during the administration of the questionnaire survey.

3.6: Conclusions and limitations to the study

There are several factors which potentially restrict the conclusions that may be drawn from the results of this study. Firstly, there was a large number of non-respondents, and this has to be considered in the interpretations of the results. Secondly, there was an under-representation of Partnership clients relative to the others. Possible reasons for the lower response rate amongst Partnership clients may include disadvantages associated with unemployment, lower educational attainments and a desire not to disclose information of this kind.

Furthermore, it was recognised that there may be problems with regard to the sample of Partnership clients. As the Partnership Companies requested that the surveys be mailed from the organisations as they could not divulge names and addresses, it has to be considered that some of the entrepreneurs may have suspected that the information might be passed on to the organisational personnel. It was anticipated that this could be a problem if the clients thought that written comments might have an effect on future interaction with the Partnership Company. Nonetheless, it is argued that, due to the confidentiality guaranteed in the survey, together with the statement that the researcher was in no way linked to any official organisation, the information provided may not have been affected.

There was a number of staff changes in six out of the eleven organisations directly involved in the study. In this respect, the researcher was dealing with different people during the initial contact, collection of information and interview stage. This was a problem as the researcher had to re-introduce the aims and objectives of the research study to a number of people during different stages of the research process. It is recognised that it would have been desirable to work with the same individuals during each stage of the research.

Lastly, as the researcher's home place is located in Co. Mayo, it was considered that this might have influenced some entrepreneurs' decisions to participate or not to participate in the study. Although complete confidentiality was guaranteed, it is recognised that some entrepreneurs might still have had difficulty with disclosing personal information to individuals whom they could identify.

Chapter 4: The entrepreneur and understanding the entrepreneurial process

4.1: Introduction

Researchers became interested in entrepreneurship in the 1970s, when David Birch (1987) published his study, stating that the Fortune 500 had stopped creating jobs and that entrepreneurial ventures were the source of new jobs. As a result, researchers have tried for over thirty years to discover the reasons for choosing entrepreneurship and the factors influencing the entrepreneurial process. Consequently research in entrepreneurship spans many disciplines including research in economics, psychology, sociology and geography.

At the outset, it was identified that there is no standard universal accepted definition of an entrepreneur, or indeed entrepreneurship. Additionally, the attempts to understand the factors which lead to entrepreneurial behaviour have been conflicting, with some researchers emphasising economic motives, others psychological traits, motives, goals and expectancies, and others emphasising a variety of contextual factors, which are thought to influence the entrepreneurial process. As a result, the theoretical conceptual framework adopted is an eclectic approach to entrepreneurship similar to that used by other researchers such as O'Farrell (1986), Audretsch et al, (2002) and Verheul et al (2002). This approach seeks to provide a unified framework of theories from a range of disciplines, to examine who and what factors influence entrepreneurship.

Therefore the focus in this chapter is on the individual entrepreneur and on the variety of factors influencing the entrepreneurial process. Various theoretical perspectives on the origins of entrepreneurial behaviour are examined and criticisms of existing approaches are included. It is hoped that the chapter provides a better insight into the entrepreneurial individual and the phenomenon of entrepreneurship.

4.2: Theoretical conceptual framework

The theoretical conceptual framework adopted, assumes that individuals in the decision to become entrepreneurs, and in the process of becoming entrepreneurs, are motivated and influenced by a variety of factors. Such motives and factors include: the economic incentives which self-employment may bring, their individual psychological traits, such as the need for achievement and the internal locus of control, and the social factors which influence their behaviour, including the entrepreneurs' background, and the influence of marginality, mobility and previous employment experiences. The contextual factors influencing the entrepreneurial process, include, the level of

entrepreneurial legitimacy in society, their experiences in interaction and the significance of institutional support in the external environment.

In the following sections a variety of theories and concepts used to explain entrepreneurship are examined, and, an attempt is made to find a connection and thus a relationship between the various theoretical conceptions, in order to establish a new vision for the entrepreneurial process.

4.3: Conceptual issues concerning the entrepreneurial personality

Identifying the entrepreneur and understanding the entrepreneurial process involves an examination of three fundamental questions in entrepreneurship studies: i) what is entrepreneurship?, ii) who will become an entrepreneur? and, iii) why do people become entrepreneurs?

- What is entrepreneurship?

As far back as 1730 Cantillon (1730) defined entrepreneurship as self-employment. He noted that entrepreneurs were involved in a process of buying goods or otherwise at certain prices, and in turn selling them at uncertain prices. This definition allowed one to imagine the process of entrepreneurship as involving the entrepreneurial individual who engaged in risk-taking and opportunity-seeking behaviour to meet economic needs.

In the *Encyclopaedia of Entrepreneurship* (Kent et al, 1982:xxxvii) entrepreneurship was explained in the following way:

“First, entrepreneurship is important. The introduction of new products and technologies to better satisfy consumer wants and raise productivity has been the most important force in man’s long and precarious climb from underdevelopment to affluence”.

In the same note, Vesper (1982:xxxix) stated “the overall field of entrepreneurship is loosely defined as the creation of new business enterprises by individuals and small groups”. Whilst this recognises that entrepreneurship is not the sole responsibility of one individual, i.e. the entrepreneur, and in many cases represents a group of individuals, it limits the definition to the creation of a business enterprise.

Gartner (1989) included in his definition of entrepreneurship, the creation of an organisation, which implied that entrepreneurship had to involve the creation of a formal entrepreneurial organisation. He added, that there was no universally agreed definition, because organisations were unique and so too were individuals. Stevenson and Jarrillo (1989) defined entrepreneurship as a process which involved individuals pursuing opportunities, without regard to their current control over the resources they required. Again this activity implied the involvement of risk-taking individuals who were involved in opportunity seeking in their market place.

From the above samples of definitions of entrepreneurship, it is clear that the term is commonly used as being related to the process of business formation. However in recent times, the term has been used to depict a broader meaning and for use in different contexts. The identification of community entrepreneurship, and the evidences of governments acting entrepreneurially, suggest that entrepreneurship is much broader than organisation formation, risk-taking and opportunity seeking. What is agreed is that there is no standard universally accepted definition of entrepreneurship and researchers have been and still are conflicting in their definitions. Therefore recent efforts to provide a definition focus on a particular kind of entrepreneurial activity, or offer a vague definition of entrepreneurship, such as that by Bellu (1993:334) who defined entrepreneurship as “the process entailing entrepreneurial actions”.

The reasons for no universal definition of entrepreneurship can also be explained by differences in opinion regarding the type of activities which constitute entrepreneurship, differences in opinion as to who is an entrepreneur (one’s definition of an entrepreneur is highly subjective), differences in research methodologies between studies and sample frames, and the variety of entrepreneurial studies which are relating to different phenomena.

Therefore it is accepted that entrepreneurship is an “atypical phenomenon” (Tornikoski, 1999:1). Nonetheless it is clear that entrepreneurship involves a process, and this process entails seeking and spotting opportunities in the marketplace or in one’s local environment. Opportunities are typically acted upon for the principal purposes of pursuing profit or income security, or in the interests of using one’s talents, hobbies and/or skills. However opportunities can also be acted upon for philanthropic and community objectives. Nonetheless, so as to engage in entrepreneurial activities, it is normally necessary to interact with external institutions and organisations, in order to receive necessary supports and resources needed for the proper functioning of the entrepreneurial venture. The entrepreneur is the individual at the centre of this process, and s/he uses their available human and financial capital in becoming a successful entrepreneur.

- Who will become an entrepreneur?

“Humanity’s progress from caves to campuses has been explained in numerous ways. But central to virtually all of these theories has been the role of the ‘agent of change’, the force that initiates and implements material progress. Today we recognise that the agent of change in human history has been and most likely will continue to be the entrepreneur” (Kent et al 1982:xxix).

The pivotal figure of the entrepreneur has been in existence for many years. O’Farrell (1986) noted that the verb *entreprendre*, which means ‘to do something’, dates from as far back as the twelfth century, and the noun *entrepreneur* had developed by the fourteenth century (Thwaites, 1977). He added that it was Richard Cantillon, an Irish businessman and financier living in France, who first

identified the entrepreneur and his unique uncertainty bearing function in the early eighteenth century.

In 1934 Schumpeter's entrepreneur emerged – the entrepreneur he argued was a person who introduced change in the market place by innovation, which he explained resulted from the carrying out of new combinations. By 1979 Kirzner had defined the entrepreneur as the person who seeks and spots opportunities in the marketplace, and consequently acts on them. S/he is essentially an arbitrageur and is involved in moving the market towards a state of equilibrium.

Therefore in the past, entrepreneurs have been regarded as important individuals because of their inherent ability to meet economic needs (Section 4.4). Consequently it may be fair to say, that they were regarded as distinct from their non-entrepreneurial counterparts. Nonetheless, this does not make the quest to identify who are entrepreneurs any easier. Do they have distinctive characteristics or display unique behaviours which make them stand out from non-entrepreneurs? Can we identify the antecedents of entrepreneurial behaviour? Can we identify who will become an entrepreneur?

In contrast to previous definitions of entrepreneurs which lay stress on their economic function, Kuratko and Hodgetts (1989:64) introduced a more general definition of the entrepreneur:

“Entrepreneurs, driven by an intense commitment and determined perseverance, work very hard. They are optimists who see the cup half full rather than half empty. They strive for integrity. They burn with the competitive desire to excel. They use failure as a tool for learning. They have enough confidence in themselves to believe that they can personally make a major difference in the final outcome of their ventures”.

However this definition may apply to many individuals and therefore does not help to identify who are entrepreneurs. Many researchers in entrepreneurial studies have asked this question, and, for a variety of reasons, their questions have been largely left unanswered. Therefore, whilst it is accepted that “entrepreneurs have selected a behavioural path that is distinctly different from their non-entrepreneurial counterparts” (Haynes, et al, 1999:90), Gartner (1985) noted that there may be as many differences between entrepreneurs as there are between entrepreneurs and non-entrepreneurs. Just as entrepreneurship represents an “atypical phenomenon” (Tornikoski, 1999:1) so too there can not be the typical entrepreneur. Consequently it is argued that to make this clear-cut distinction between entrepreneurs and non-entrepreneurs is too crude, because today entrepreneurs comprise a heterogeneous group of individuals who occupy many roles and fill many societal and economic needs. With this in mind, the problem of defining the entrepreneur is made redundant and therefore no attempt will be made to offer a definition of the entrepreneur.

- Why choose entrepreneurship?

In an increasingly globalised world, the average individual is faced with an array of career options due to such changes as increasing ICTs, improved educational and career options, changes in the labour market structure which favour more flexible and short term contractual work, and improvements in transportation, which offers the individual choices as to where to find employment. Therefore Bellu (1993:331) questioned “what motivates certain individuals to engage persistently in entrepreneurial actions?” Why is it that the entrepreneur chooses to follow the entrepreneurial path of hard work, commitment, risk-taking and financial uncertainty?

In response to Bellu’s (1993) question, it is recognised that the entrepreneur who establishes an enterprise makes an individual choice – a choice which involves leaving or dismissing the structured employee and securely paid work environment (although it is an accepted fact that no job is for life!) for the uncertain environment that is entrepreneurship. Furthermore, it is recognised that if one were to ask an entrepreneur, s/he will invariably give more than one reason for his/her decision. Therefore to be general we tend to assign certain traits inherent in an individual, or other individual reasons such as self-doubt, rejection of banality, lethargy, indecision or the wish to fulfil a level of affluence to which they aspire. Furthermore it is assumed that one chooses to become an entrepreneur because it offers economic, social and personal rewards which another career would not.

However to return to the problem of identifying the entrepreneur, it is argued that many of these reasons can also be assigned to non-entrepreneurs. So what makes one individual choose entrepreneurship and not another?

There are many different approaches to explaining why people become entrepreneurs. An initial approach could focus on establishing the reasons for individuals entering self-employment, such as the economic, social or political conditions in the entrepreneur’s external environment which may encourage or hinder the entrepreneur in this process. A second approach could choose to focus on the individual resources, traits and characteristics of the entrepreneur. Thirdly one could choose to look at environmental factors (such as the demand for products and services, the establishment of institutions designed to facilitate entrepreneurs, the help of family, friends and other business associates). Finally one could look at individual motives for establishing an enterprise. These approaches attempt to establish the why and how of entrepreneurship.

4.4: Economic approaches

How has economic theory contributed to understanding entrepreneurial behaviour and/or the decision to become an entrepreneur? What role does the entrepreneur play in economic theory? Friis et al (2001) explained that entrepreneurship was central to economic theory in the early 20th century, however it became neglected for some decades and was then re-discovered in the 1970s. Therefore in answer to the above questions, a brief historical overview of the economic approaches to entrepreneurship is presented.

- Defining the entrepreneur in economic theory

Kuratko and Hodgetts (1989) noted that prior to the 1950s the majority of definitions and references to entrepreneurship came from economists. In economics, Casson (1982:22-23) explained that there are two main approaches in defining anything: the first is the functional approach and this approach states quite simply “an entrepreneur is what an entrepreneurs does” – therefore he explained, “it specifies a function and deems anyone who performs this function to be an entrepreneur”. Consequently to use the functional definition of an entrepreneur as proposed by Casson (1982:23), the entrepreneur is defined as “someone who specialises in taking judgemental decisions about the coordination of scarce resources”. The second approach is called the indicative approach and this describes the individual, so as to recognise who is an entrepreneur. More specifically, it describes an entrepreneur in terms of “his legal status, his contractual relations with other parties, his position in society and so on” (ibid, 1982:22). Casson (1982) explained that by and large, economic theories have adopted a functional approach whilst economic historians have used an indicative one.

However economists such as Kirzner (1973:16-17) stated that anyone could be an entrepreneur:

“It follows that anyone is a potential entrepreneur, since the purely entrepreneurial role presupposes no special good fortune in the form of valuable assets.”

Although time has passed since Cantillon (1730) defined the entrepreneur, nevertheless Friis et al (2001:1) noted “the entrepreneur is [still] an elusive character in economic theory due to the difficulty of providing an accurate description” and added that researchers such as Glancey and McQuaid (2000) have mentioned five definitions of entrepreneurship, whilst Wenekers and Thuirk (1999) mentioned thirteen. Furthermore Kent et al (1982:237) noted “despite the importance of entrepreneurship, economic theory has yet to adequately explain either the process by which an entrepreneur springs forth or the results of entrepreneurial activity in stimulating growth”. This leads to the next question, if there is no common definition of the entrepreneur in economic theory, and indeed, if anyone can become an entrepreneur (Kirzner, 1973), then what role does the entrepreneur play?

- The role of the entrepreneur in economic theory

The classical view of entrepreneurship recognised the entrepreneurial individual as a central figure in the economy (e.g. Cantillon, 1730), and identified the entrepreneur as involved in risk-taking opportunities and uncertainty, whilst recognising profit as the primary incentive for economic behaviour. The entrepreneur was also noted as an “equilibrating mechanism in a market economy” (O’Farrell, 1986:144).

Neo-classical economics (post 1879) placed the entrepreneur as one of the essential factors of production in the marketplace, along with capital and labour, and the entrepreneur was essentially viewed as a capitalist. However O’Farrell (1986:146) explained that the neo-classical economist assumed that “the firm is the entrepreneur”, and that everyone had free access to information. In essence, O’Farrell (1986:146) argued that this served to “trivialise a very complex social, psychological and economic process, which varies widely from firm to firm”. Furthermore Friis et al (2001:7) argued that neoclassical theory explained economic growth as an “accumulation of factors of production and exogenously determined changes to the economy”. Therefore there was a distinct absence of the individual entrepreneur in the neo-classical definitions.

After the 1870s the Austrian school emerged, and with that came Schumpeter (1934) who has been regarded by many as the most influential writer on entrepreneurship at that time. Schumpeter was the first of the structuralist theorists, in his 1911 *Theory of Economic Development* and later in his 1939 *Business Cycles* and 1942 *Capitalism, Socialism and Democracy*. For Schumpeter, economic development involved a process of carrying out new combinations in the production process, and, these new combinations were usually in the form of new firms (Hart, 1989). The entrepreneur was the individual who was involved in this process in the following way:

“Schumpeter views entrepreneurs operating on a much wider scale, by creating and destroying markets. Schumpeter’s entrepreneurs cannot rely on market price information.... because the markets in which they are seeking to operate do not yet exist. Schumpeter’s entrepreneurs do not merely adjust markets, they make them and they destroy them. They are not just the mechanism, or the agents, through which the market system operates, they are the very creators of the system itself” (Casson, 1982:381).

Therefore Schumpeter’s entrepreneur had a key role to play in economic development as s/he was involved in a process of creative destruction - the “perennial gale of creative destruction” (Schumpeter, 1942:84), opportunity seeking and uncertainty. Schumpeter regarded this process of carrying out new combinations of products and/or services for the marketplace, as innovation. O’Farrell (1986) noted the five types of innovation identified by Schumpeter, which included the introduction of a new good (to include the improvement of an existing good); a new process; opening up of a new market (especially involving exporting); identifying a new source of supply of raw materials and the creation of a new type of industrial organisation (Schumpeter, 1934).

Therefore in situations of economic crises, entrepreneurs could be the source of this innovation and creation.

Later Schumpeter (1939) accepted that new businesses could be imitative rather than innovative. Various attempts to distinguish innovation in entrepreneurship followed – such as that proposed by Casson (1982) who distinguished between high entrepreneurship, that which was innovative, and low entrepreneurship, the creation of a new organisation. Other researchers, such as Sundbo (1991), have argued that there are other characteristics of innovation, such as the drive and psychology of the entrepreneur, and marketing aspects. Nonetheless recent economists, such as Drucker (1985:17), still viewed innovation as a central function of entrepreneurship:

“Innovation is the specific tool of entrepreneurship, the means by which they exploit change as an opportunity for a different business or a different service”.

Although for Schumpeter the emphasis was placed largely on existing enterprises, Hart (1989:131) noted that entrepreneurship always manifested itself in new business, and Schumpeter would not accept that all new businesses manifested entrepreneurship. Schumpeter argued that anyone was an entrepreneur once they were involved in carrying out new combinations, however they were no longer an entrepreneur when the enterprise was established, and the individual became involved in the day to day running and management of the enterprise – as these activities were regarded as routine acts.

Schumpeter’s efforts to explain the entrepreneurial personality resulted in the identification of two personalities: the capitalist who provided the financial assistance required, and the entrepreneur who established a product or service for the marketplace. These two personalities were not necessarily two persons, but he explained that the two personalities were essential for the entrepreneurial act. Later Schumpeter (1965) expanded the entrepreneur’s role to include their involvement in leadership and decision-making in economic development.

As Schumpeter’s entrepreneur was involved in acts of creative destruction, and therefore represented the key to economic development, this definition depicted the entrepreneur as a person who looked to their external environment for opportunities to become an entrepreneur and create personal wealth. Therefore it may be suggested that this type of entrepreneur may have had a strong internal locus of control, as they are not controlled by their external environment as Population Ecology Theory assumes (Chapter 5). For Schumpeter’s entrepreneur, the environment would be in a constant state of change, and the entrepreneur would be involved in responding to this change. This view would conceptualise the entrepreneur as an independent variable, as Schumpeter’s entrepreneur was the vehicle for “continual reorganisations of the economic system” (ibid, 1911:155-6).

After Schumpeter, neo-classical economists such as Kirzner [Austrian school] (1973), in contrast to the neo-classical view, defined the entrepreneur as a person who seeks and spots opportunities in the marketplace and acts on them. As markets were constantly in a state of disequilibrium, the entrepreneur was considered an 'arbitrager', and the result of their entrepreneurial act was to move the market towards equilibrium.

Furthermore Kirzner (1973:16-17) identified the role of the entrepreneur in a competitive market:

"The entrepreneur's activity is essentially competitive. And thus competition is inherent in the nature of the entrepreneurial market process. Or, to put it in the other way around, entrepreneurship is inherent in the competitive market process."

However Kirzner (1973) recognised that the entrepreneur was not solely driven by the need for profit but was involved in correcting waste:

"Economics explains that where there are unexploited profit opportunities, resources have been misallocated and resulted in some kind of social 'waste'.....A profit opportunity implies a pre-existing waste. Entrepreneurship corrects waste (Casson, 1982:272)."

Moreover Sundbo (1991:164) explained that to Kirzner (1973), the entrepreneur was not only involved in exploiting new opportunities in the marketplace, but that the entrepreneurial individual also had a "a psychological need, not only to economise and rationalise (as in the model of economic man), but also to be creative in situations with new possibilities".

In contrast to Kirzner, Wilken (1979) viewed entrepreneurship as a dependent variable, as he argued that entrepreneurship depended on certain conditions in the economy to improve and offer opportunities in order for entrepreneurship to occur. Consequently, an economy which did not supply the necessary economic conditions would be expected to have low levels of entrepreneurship.

Wilken (1979) explained that the necessary economic conditions needed to stimulate entrepreneurship could be divided broadly into two classes: i) those opportunities which provide market incentives necessary for the entrepreneurial individuals and, ii) those conditions which influence the availability of capital. Capital was described as "the major resource needed to carry out the entrepreneurial function" (ibid, 1979:7). Therefore Wilken (1979) recognised that as economic growth and development occurred, so too did the conditions for entrepreneurship improve. However Wilken (1979) added that economists have played down the significance of entrepreneurship, in emphasising the economic conditions promoting its emergence, and concomitantly, the occurrence of economic growth and development.

More recently researchers such as Audretsch et al (2002:3), have again placed entrepreneurship as central to economic growth, by recognising that:

“A cost in terms of forgone economic growth will be incurred from a lack of entrepreneurship. The positive and statistically robust link between entrepreneurship and economic growth has been indisputably verified across a wide spectrum of units of observation, spanning the establishment, the enterprise, the industry, the region, and the country”.

From the above brief overview of economic contributions to understanding of the entrepreneur and the entrepreneurial process, it can be suggested that the debate has largely focused on identifying the role and significance of the entrepreneur in economic growth, and in this respect the results have been conflicting. Whilst Hirschmann (1965) argued that entrepreneurship was not an obstacle to economic growth, (O’Farrell, 1986) and Gerschenkron (1966) suggested that entrepreneurship was not ‘necessarily necessary’ as a precondition for economic growth and development, whilst Hart (1989) noted that entrepreneurship was increasingly emphasised as the key determinant of economic regeneration and Wilken (1979:2) added that entrepreneurship has been regarded by many as perhaps the “most significant causal factor in the process of economic growth and development”.

Interestingly Casson (1982) asked, is it worth considering questions such as can we have a booming economy in the absence of entrepreneurs? and what if there were no individuals who could co-ordinate scarce resources? However the answers to these questions, and the identification of the significance of the entrepreneurial contribution, would identify a role for the entrepreneur in economic theory.

Furthermore Casson (1982) added that unless entrepreneurship were to derive from a scarce resource, then it is considered of little economic interest, even though it may be of social importance. Where would social and community entrepreneurs fit into this model? Or those entrepreneurs who are making a loss and are clearly not solely driven by profit?

Therefore the question is asked, how do economic theories contribute to our understanding of why an individual chooses to become entrepreneurial? Traditional micro-economic theory was guided by the entrepreneur’s impact on the economic climate and the idea that such individuals were driven primarily by the desire to make a profit from their business venture and the assumption that everyone had free access to all the information required for entrepreneurship. As a result, Westhead (1997:130) noted Casson’s (1982) suggestion that the entrepreneurial decision is “based upon the expected returns to entrepreneurship and the reward to the best alternative use of his/her time”. Furthermore, it has been suggested, “if pecuniary motives were the sole motives of entrepreneurs, then one could argue that economic factors would be sufficient to stimulate the emergence of entrepreneurship” (Wilken, 1979:20). Such a view would have little room for the significance of social and/or psychological factors in supporting and encouraging entrepreneurship.

Therefore it may be fair to agree with Campbell's (1995:95) argument that "economic theory has yet to make a concerted effort at explaining entrepreneurship, either its role in economic development or its determinants [and that as a result] an often repeated phase amongst economists discussing entrepreneurship is that 'there is no economic theory of entrepreneurship'". Furthermore Casson (1982:10) stated "it may be said quite categorically that at present there is no established economic theory of the entrepreneur". Campbell (1992) included in his 'economic decision model' the assumption that the entrepreneur's probability of success (or ability to gain economic rewards) is related to his/her degree of human capital. The human capital package includes the individual's level of formal education and skills and their contacts made during on-the-job training (Westhead, 1997). Human capital is necessary for many reasons, as Westhead (1997:130) noted that those individuals who possess a high level of human capital may be "more likely to identify resource networks (for example, contacts with potential suppliers, buyers, financiers, management consultants, etc.) that are crucial for business development".

So what about Wilken's (1979) suggestion that if the necessary conditions were present they would present more opportunities for entrepreneurship? A generic list of conditions can include, institutional support, provision of the necessary infrastructure, a healthy economy and the availability of labour. However if these and many more conditions are present, can it then be suggested that more individuals will have the propensity to become entrepreneurial? An acceptance of this would not explain why there exists non-entrepreneurs, why there are non-entrepreneurs in developed economies which offer the aforementioned economic conditions, and, furthermore why entrepreneurs emerge in severe and conflicting economic conditions. Therefore it is fair to say that economic theory fails to recognise that entrepreneurs emerge in the absence of favourable economic conditions, and fails to address the context under which entrepreneurs emerge. Economic theory must include additional contextual factors which are necessary to explain the determinants of entrepreneurial behaviour. It is for this reason that we turn to other disciplines.

4.5: Psychological theories

In contrast to most economic contributions, psychologists and sociologists tend to examine the non-economic factors which influence entrepreneurship. Therefore these disciplines combined tend to view the entrepreneur as an independent variable (Wilken 1979).

It is argued that to make a distinction between entrepreneurs and non-entrepreneurs is too vague - all individuals are unique regardless of whether they are entrepreneurs or not, and for psychologists this is termed the "law of individual differences" (Newstrom and Davis, 1997:11). Psychologists such as Kagan and Havemann, (1976:376) examine the individual personality, which can be defined as "the total pattern of characteristic ways of thinking, feeling and behaving that constitute the individual distinctive method of relating to the environment". Entrepreneurial behaviour can be

compared to behaviour in general, and behaviour for psychologists “depends on the outcomes that an individual values, and the experiences that a particular type of behaviour will lead to those outcomes” (ibid, 1991:67). Psychologist’s writings on personality are useful in studying entrepreneurship, as it has been recognised that one’s personality has been proven to “exert a dominant influence on the subsequent success of the entrepreneur’s venture” (Miner, 1997:331).

Psychological theories of entrepreneurship further study the motives for start-up, the individual goals of the entrepreneur and certain character traits which have been attributed to entrepreneurs. For the purpose of this overview, psychological theories are divided into three broad categories: i) trait theories, ii) psychodynamic models and, iii) motivation, expectancy and goal theories.

4.5.1: Trait theories

The idea that how successful one is as an entrepreneur depends on one’s personal traits has received much notice from the field of behavioural psychology. That individuals are unique, and therefore have different characteristics and display different behaviours, are accepted facts. Are there unique entrepreneurial traits and, if so, does the identification of certain traits help to establish what types of people are likely to behave entrepreneurially? If these two fundamental questions could be answered, then it would help to identify the psychology of the entrepreneur. Although Churchill (1992:585) noted that “we lack a generic definition of the psychology of the entrepreneur and the relationship of psychological traits to both the initiation and growth of new enterprises”, nonetheless, trait theories are examined to consider how they have contributed to understanding of the entrepreneur and the entrepreneurial process.

Trait theorists such as Hampson (1982:1) define personality as “more or less stable, internal factors that make one person’s behaviour consistent from one time to another, and different from the behaviour other people would manifest in comparable situations”. With this in mind, it is reasonable to assert that if people are consistent in their personality, it should be possible to identify the entrepreneurial personality, and in turn predict who will become an entrepreneur.

Chell (1987; 1993) explained, that one could refer to traits as classification systems used by individuals to understand the behaviour of other people. Therefore a variety of trait theories used by Chell (1993) are examined here to discover the possible causes of entrepreneurial behaviour. Trait theorists argue that one’s personality is something internal to each individual and manifests itself outwardly through their behaviour. Traits are particular individual characteristics which distinguish one type of activity from another, and this may explain why we typically classify business owners as entrepreneurs, specifically because they demonstrate this certain type of behaviour, and commonly fail to identify other entrepreneurial activities such as entrepreneurial government activities and/or community activities.

In an attempt to understand what types of people become entrepreneurs, theorists have looked to the various traits of such individuals, to examine if there is any commonality between them. Furthermore, individual traits have not only been examined as an attempt to explain the types of person who become entrepreneurs but some e.g. Littunen et al, (1998:190) have suggested that “entrepreneurship and entrepreneurial action in small firms is closely connected with the personal characteristics of the entrepreneur”.

Chell (1993:37) noted the main characteristics of entrepreneurs that are cited frequently in research studies, to include those which suggest that entrepreneurs are moderate risk-takers (Brockhaus, 1980a), are deviants (Kets de Vries, 1977), are high in need of achievement (McClelland, 1961, 1965), need independence (Collins & Moore, 1970), need power or control (Greenberger & Sexton, 1988), have a tolerance of ambiguity (Schere, 1982), and possess an internal locus of control (Brockhaus, 1982).

One researcher, Gibb (1987), assigned a list of entrepreneurial attributes to define the entrepreneur and recognised that the possession of such attributes was the key to the development of an enterprise (Fig. 4.1):

Fig. 4.1: Gibb’s list of entrepreneurial attributes

Initiative
Strong persuasive powers
Moderate rather than high risk-taking ability
Flexibility
Creativity
Independence/autonomy
Problem-solving ability
Need for achievement
Imagination
High belief in control of one’s own destiny
Leadership
Hard worker

Source: Gibb, A. (1987:27-31)

However can researchers say that the entrepreneurial individual will possess any one or indeed list of attributes such as those identified by Gibb (1987)? It is invariably accepted that one cannot assign one, two or indeed a list of traits to the entrepreneurial individual and use that to explain why s/he has become an entrepreneur. Nonetheless a selection of the most researched traits are reviewed in an effort to examine their relevance to entrepreneurship. These include the need for achievement (McClelland, 1961, 1965), need for independence, risk-taking propensity (Brockhaus, 1980a), and power/locus of control (Rotter, 1966; Brockhaus, 1982).

- The need to achieve

Although there has been considerable pessimism regarding the relevance of studying traits in entrepreneurship research, Miner (1997) recognised that need for achievement still continues to be an important consideration in studies predicting entrepreneurial success. Undoubtedly the need for achievement is one of the most researched motives studied to identify both who and why individuals become entrepreneurs. A description of individuals who possess a need for achievement has ranged from the clearly comical, such as that noted by Smith et al (1982:45) - "likely to be the non-conformist in his religious views and prefer sombre shades of blue and green", to that noted by Weber (1958) in his research on the Protestant Ethic where Protestants and Jews were seen as possessing a higher level of need-achievement because of their religious affiliations.

The individuals with a need to achieve (nAch) have been described by McClelland (1961) in *The Achieving Society*. McClelland (1961:45) explained that "high nAch will lead a person to perform better when achievement in the narrow sense is possible". The "hypotheses states that a society with a generally high level of nAch will produce more energetic entrepreneurs, who, in turn, produce rapid economic development" (ibid, 1961:205). This trait was applied to entrepreneurs as it was accepted that the entrepreneur had set him/herself the goal of establishing and/or developing an enterprise, and that by becoming an entrepreneur they would gain more achievement than they would have following alternative career paths. It was for these reasons that training courses in achievement motivation were provided for small businessmen in India (ibid, 1987). Nevertheless, the questions are asked: i) can we identify the type of behaviour demonstrated by such an individual, and, ii) what are the (if indeed there are any) consequences for entrepreneurship?

Smith et al (1982:41) described those with a need for achievement as possessing "the desire to do something better, faster, more efficiently or with less effort". Indeed research suggests that so as to fulfil their goal and ultimately their need for achievement, this type of individual may work very hard (up to 70 hours per week) because doing so gives them a sense of personal achievement. Similarly this person is typically "task-orientated [and will therefore] feel pressure to get the job done" (Smith et al, 1982:45). Some (e.g. Miner et al, 1989) have suggested that the need for achievement can be related to business growth, because such individuals will seek to improve their individual performances, and in-turn will seek to improve the performance of their enterprises etc. Consequently they may have high expectations for their future and for the future of their established or developing enterprise, and ultimately they will fear personal failure and business failure.

McClelland (1961) argued that it is achievement which constitutes the main reward to be gained from engaging in entrepreneurial activities. Therefore it is worth noting his suggestion that individuals who possess a high need-achievement will not be motivated by monetary incentives. Nonetheless Wilken (1979:17) argued that any monetary rewards achieved would constitute a “symbol of achievement for them”.

Research has suggested that one’s past experiences, positive and negative, have also been considered as important factors in the development of need for achievement (Smith et al, 1982). Early childhood experiences have also been related to need for achievement, e.g. the type of praise one received from parents. It might be expected that a child who is praised for taking initiative and valuing creativity, is included in decision-making, or involved in a family business, may in turn be more likely to aspire to becoming an entrepreneur. However it is also fair to say that a child who grows up in poverty, with a lack of such opportunities, may aspire to exit from such experiences and embrace a life involving entrepreneurship.

In his subsequent work *Motivating Economic Achievement*, McClelland (1971) reduced the significance of the dynamics of the relationship between parents and children in the genesis of need for achievement. He placed greater emphasis upon socio-cultural factors such as norms and values, which stress achievement and support from groups. More importantly he emphasised the importance of an individual seeing him/herself as the source of change in their environment, which is interesting in the context of Population Ecology Theory (Chapter 5). Additionally, he placed greater emphasis upon the part played by education in identifying and/or encouraging the need-achievement in individuals (Wilken, 1979).

Smith et al (1982) in reference to a number of earlier studies noted that high levels of need for achievement were positively related to higher levels of income, positive company performance and to the achievement of high-growth businesses. Therefore it may be true to say that, in a society with many individuals possessing the need for achievement, there may be an increase in entrepreneurs. Consequently, in recognition of the importance of instilling the need for achievement in the members of society, can it be asserted safely that parents, educators or others should instil this in all individuals and, by doing so, could the levels of entrepreneurial activity be increased?

A description of the activities and behaviour demonstrated by those who possess a need for achievement does not explain the lack of need for achievement in other individuals? Furthermore, Ray (1993) noted that some authors have criticised McClelland’s paradigm as it suggests that an individual who is unemployed is thus responsible for this state and/or for their lack of entrepreneurial activity. Chell (2001) noted that when need for achievement was tested it did not

demonstrate any direct connection between those who possessed a need for achievement and those who decided to own and manage a business. Therefore, just as it is stated that entrepreneurship is an “atypical phenomenon” (Tornikoski, 1999:1) it is accepted that the possession of one, two or multiple traits will not guarantee subsequent entrepreneurial behaviour.

- The need for independence

Essentially individuals who possess a need for independence prefer to be their own boss. In explanation, Chell (2001) noted that this motivation typically includes the desire for autonomy from bureaucratic and state controls and the ability and desire to make their own money for personal consumption or otherwise. Additionally the individual strives to generate capital, which can be consumed in whichever way s/he decides, and by doing so also raises their personal standard of living.

Chell (2001) noted Curran and Blackburn’s (1994) suggestion that the individual who possesses a desire for independence may create what was termed a fortress enterprise, explained as mentally or actually shutting out external advice and linkages with their wider external environment (Chell, 2001). Nonetheless it is safe to suggest that there is a strong correlation between those who desire independence and their decision to become an entrepreneur. Entrepreneurship in most cases gives independence by offering the individual control over their finances and destiny. Furthermore it offers a break from the bureaucracy which may have characterised their previous status as an employee. Bureaucracy is particularly evidenced in large organisations where there may be less scope for decision-making opportunities. Therefore the independence which is achieved by becoming one’s own boss is undoubtedly one of characteristics which the individual possesses or aspires to in his/her decision to become an entrepreneur.

- Risk-taking Propensity (Brockhaus, 1980)

Ray (1993:348) argued that “risk in entrepreneurship is better understood as a contextual and strategy variable, not a personality variable”. Risk-taking activities can be viewed as a strategy variable as entrepreneurs adopt multiple strategies to cope with risk-taking activities. These include interacting with external enterprise-supporting institutions to support them in their entrepreneurial process, or entering into partnership with one or more individuals so that they do not bear sole responsibility for their risk-taking activities. Nonetheless a variety of contextual factors, including personal and social risks, are identified as it is argued that the risks which an entrepreneur takes in establishing an entrepreneurial venture are many.

The personal factors which need to be considered in risk-taking behaviour include the obvious clashes with family commitments, the individual responsibility for their own and often family finances, and the consequences of business failure. Furthermore there are identified social risks which include the length of time devoted to establishing, developing and maintaining the entrepreneurial venture, and the risks involved in competing with other local or known business sources. Therefore risk-taking activities extend well beyond the act of spotting market opportunities in uncertain environments and acting upon them.

Can it be suggested that the entrepreneur is more willing to engage in risk-taking activities than the non-entrepreneur? Individuals take risks in everyday activities and one cannot weigh up the consequences of undertaking risk-taking activities without regard to the individual who engages in such activities. This argument introduces the notion that risk-taking has to be examined in the context of a variety of individual, social and economic factors, regardless of whether it applies to entrepreneurial or non-entrepreneurial behaviour. For this reason, sociological factors are examined in a later section, which include contextual factors which should be considered in light of this question.

- The desire for power or control

Chell (2001) explained that those who desire personal control typically display an enjoyment of being in charge, and enjoy competitive and status orientated situations. Interestingly, she added that these individuals “tend to be more concerned with gaining influence over others and with their prestige than with effective performance” (ibid, 2001:138). Furthermore she noted that “the need for control has been construed to be a personality dimension called locus of control” which has been identified by Rotter (1966).

Rotter’s (1966) theory distinguished between individuals with an internal locus of control and those with an external locus of control. Locus of control can be described as the individual’s perception of whether or not they are in control of events which influence them. He considered that those individuals with a high level of internal locus of control believe that they are in control of their own destiny. It is these individuals who he argued, would be more likely to be entrepreneurs. Conversely those with an external locus of control believe that fate, destiny and luck control events. Consequently, these individuals would be less likely to become entrepreneurs.

Although the desire for personal control is included in many research studies, Begley and Boyd (1986) noted, unsurprisingly, that there has been no evidence found to distinguish business founders and non-founders (i.e. managers) on locus of control Chell (2001). Furthermore, those who might claim to possess an internal locus of control may lose some of this control in the face of

interaction with external institutions. Therefore can it be suggested that the possession of such may have consequences for the interaction process? This issue is examined in a later section (4.8).

- Criticisms of trait theory

It is recognised that becoming an entrepreneur is an individual choice. Therefore can those who will become entrepreneurs be identified by assigning a list of traits to explain such behaviour? Trait theories provide 'static models', which assume that certain characteristics in a human being determine whether they will become an entrepreneur (Chell, 1993). Therefore it is accepted that there is something within the individual that makes him/her enterprising; and the action they take is largely to do with the physiological makeup of the individual. However in reality, it has been argued that trait theory fails to address why individuals become entrepreneurs (Matthews and Moser, 1995).

Furthermore Campbell (1995:95-96) argued that focusing on trait theories "limits both explanations and predictions of entrepreneurial acts, as well as policies to encourage such acts". More importantly, Ray (1993) argued, almost all personality traits an individual possesses can be both positive and negative for entrepreneurship and new venture development. Therefore one cannot say that the possession of a particular trait will have positive, negative or indeed any effect on the entrepreneurial venture.

Kupferberg (1998) added that most studies which focus on the psychology of entrepreneurs are in most cases very primitive. He added that to look for inherent characteristics to predict who will become an entrepreneur is a "waste of time" and "intellectually misleading" and offered the following reasons (1998:172):

1. They ignore the dynamic and deeply social nature of occupational choices;
2. No matter how sophisticated our psychological instruments are, we will never be able to predict whether a person will become an entrepreneur or not; and
3. Such studies are looking in the wrong place, for the simple reason that values and attitudes change during the life-course of individuals.

However if one rejects the trait approaches to theorising entrepreneurship one is accepting that it is not possible to predict who will become an entrepreneur, based on his/her inherent personal characteristics. Therefore it is better to accept that behaviour and individual traits are not consistent and will change over time. Consequently it is argued that it is also necessary to examine the contribution which motivations, goal and expectancy theories offer in order to establish a more comprehensive understanding of the entrepreneur and the entrepreneurial process.

Furthermore it is recognised that the decision to become an entrepreneur is one which may evolve at any stage in one's lifetime, because just as behaviour and traits vary, so too, do values and attitudes change over time. It is for this reason that this examination turns to psychodynamic approaches. Brereton and Jones (2002) noted that research which concentrates on traits has been increasingly challenged by those who view entrepreneurship as phenomena which is strongly socially embedded. Therefore with this in mind, it is valid at this stage of the examination to refocus the question from who becomes an entrepreneur to the question of "what kind of experiences tends to make someone an entrepreneur?" (Kupferberg, 1998:172).

4.5.2: Psychodynamic approaches

Kupferberg (1998:172) stated that "becoming an entrepreneur can be seen as a particular kind of occupational choice or career commitment that emerges in an individual's life history". Furthermore Strohmeier (2001) stated that the decision to become self-employed is developed and materialised in a long-term process. The following psychodynamic approaches to entrepreneurship, recognise the changes that take place in the lifetime of an individual. Just as traits and behaviour have been identified as being inconsistent over time, so too it is argued that the decision to become an entrepreneur may occur at various stages in an individual's life.

The psychodynamic approach largely derives from Freud's (1930) psychoanalytical theory of personality. Reismann (2002) explained that the starting point of Freud's theory is the repression of a desire and that repression is the precondition for economic growth. Therefore the entrepreneur may emerge because of a repression of a desire in his/her early childhood, and entrepreneurship may be the vehicle towards achieving this desire. The desire may include the economic incentives which entrepreneurship may offer, the rise in one's social status which may manifest in one receiving respect and praise from friends, family and other acquaintances, or a personal desire such as family security, self-actualisation and/or self-esteem.

However Freud argued that the individual personality is largely formed in childhood and in fact by the age of 6 (Chell, 1993). There are three main stages of personal development which shape the individual personality, namely the oral, anal and phallic stages, and "should an individual not have passed successfully through any of these stages, he or she is said to be fixated at a particular stage" (ibid, 1993:29). To illustrate, a person who is fixated at the oral stage may seek oral gratification which may result in the desire to smoke cigarettes; anal retentive characteristics may result in an orderly, over-scrupulous person who may be anxious in their habits and daily manner; and phallic characters have a tendency to be proud individuals who are likely to possess a dominant personality.

More importantly, Chell (1993:29) noted that “a person realises him/herself through interaction with the environment [and that] the balance of elements or parts of the personality will determine how one overcomes and deals with these problems”. For a well balanced person to emerge, there must be a balance of the above parts of their personality and no one part should be dominant. She noted that the personality comprises three parts:

1. *id*: the “impulsive instinctive self”. If the *id* is dominant in one’s personality, an individual may try to rush into entrepreneurship without fully considering the consequences of becoming an entrepreneur and managing entrepreneurial activities. This is because entrepreneurship may offer them the pleasure and gratification which this part of the personality seeks;
2. *ego*: the “rational, realistic aspect which realises that immediate gratification of a desire is not always possible”. For the entrepreneur, the *ego* describes the type of individual one may wish to become, i.e. one may wish to become an entrepreneur. However this part of the personality pacifies the *id* by allowing the individual to carefully calculate and consider the consequences of entrepreneurship, before embarking on their entrepreneurial feat. Furthermore the *ego* must learn how to deal with the external world, the demands made by people, their expectations and the value they place on entrepreneurship;
3. *superego*: the “individual’s notion of right or wrong”. This part of the personality can also be referred to as the moral part and for the entrepreneur, the *superego* balances their personality by helping them to distinguish between right and wrong behaviour in entrepreneurship.

Undoubtedly one’s childhood experiences may have in some cases a profound influence on the decision to become an entrepreneur. The rejection of authority, resulting from over-authoritative parents, may lead to the desire to become one’s own boss in adulthood and reject another individual’s authoritative manner. Furthermore, deprivation of essential items or needs during childhood may lead to the subsequent desire to become successful entrepreneurs, so that one can in turn provide for themselves and their own family. Entrepreneurship may offer the outlet towards achieving what was repressed in childhood. It is argued that such repression may occur at any stage in one’s lifetime and may subsequently influence one’s decision to become an entrepreneur.

Therefore Freud’s theory “assumes a stable, lifelong pattern to personality which possibly gives the appearance of change as the individual responds to different situations, but which in reality is merely acting out of a pattern laid down at a very early age in childhood” (Chell, 1993:30). Nonetheless entrepreneurship must be considered as unrestrained by time, and that the decision to become an entrepreneur may occur for a variety of reasons and during different stages in one’s lifetime.

In contrast, Eriksson's theory (1963) suggested that one's personality could still be moulded and changed throughout an individual life. Erikson divided the life span into eight stages of personality, of which two are of particular importance to entrepreneurship – the 'early adulthood stage' (age 20-40) when intimacy is sought from relationship with others, and, hence isolation is prevented, and the 'middle adulthood stage' (age 40-65) characterised by the desire for generativity versus stagnation. During these stages the individual reflects on his/her life and looks back and judges how meaningful or unmeaningful his/her life has been (Chell, 1993). During these stages it is very likely that entrepreneurship will occur. Furthermore Sheehy (1976) has also divided the life stage into the following:

1. Pulling up roots
2. Trying 20s
3. Catch 30
4. Deadline decade
5. Renewal or resignation

The 'catch 30' age period is a period of reassessment, characterised by the urge to burst out of a routine. It tends to be a time when decisions are made about the future and particularly with regard to career and goal setting. Consequently, the individual may choose entrepreneurship as a vehicle to escape routine, fulfil goals and establish an alternative career. The 'deadline decade' (age 35 +) represents a time when one re-evaluates the self, one's life, goals and orientation. There is a sense of last chances must be taken now, and consequently an individual becomes more self-assertive (Chell, 1993). During this stage the individual considers their career options and it is at this stage that they also might consider entrepreneurship.

4.5.3: Motivations, goals and expectancies

- Motivation theory

In this section the contribution which motivation theory bring to furthering our understanding of entrepreneurship is examined. The essential question to be considered is, can we identify the entrepreneur's main motives for setting up an enterprise? and, if so, why would an examination of entrepreneur's motives be important for our understanding of entrepreneurship?

Motivation has been described as a "decision-making process through which the individual chooses desired outcomes and sets in motion the behaviour appropriate to acquiring them" (Huczynski and Buchanan, 1991:64). Newstrom and Davis (1997) explained that very few human activities occur without motivation and therefore nearly all conscious behaviour is driven by motivation. Therefore motivation theories are examined in entrepreneurship for a variety of reasons.

Haynes et al (1999) noted motivational differences amongst entrepreneurs and, more importantly, that these differences impacted on the entrepreneurial process. More specifically, Dubrin (1994:35) argued that motivation is a “major contributor to productivity”, and Newstrom and Davis (1997:12) argued that motivation is essential to the operation of organisations. With this in mind, it can be suggested that if it is possible to identify an entrepreneurs main motives, then consequently this would not only indicate their main motivations for setting up an enterprise but may also cast some light on the performance potential of the enterprises.

Maslow’s (1954) theory is the most referenced theory of motivation. It establishes a need hierarchy which identifies a hierarchy of five individual needs, including physiological, safety, social, esteem and self-actualisation needs. At the crux of Maslow’s theory is the argument that if these needs are not satisfied then individuals will not behave in the most coherent or efficient way. He explained: “born out of being deprived of certain satisfactions which I called needs in the same sense that water and amino acids and calcium are needs, namely that their absence produces illness” (ibid, 1962:26). Using this theory, the first three (physiological, safety and social) needs are grouped under the category deficient, because if they are not met it is very likely that the individual will not behave in a normal or most efficient manner. The remaining two, esteem and self-actualisation, are grouped under the growth category and when these needs are satisfied the individual can fulfil their full potential.

However Maslow (1962:55) argued “the single holistic principle that binds together the multiplicity of human motives is the tendency for a new and higher need to emerge as the lower need fulfils itself by being sufficiently gratified”. By this he explained “man’s higher nature is inconceivable without a satisfied lower nature as a base” (ibid, 1962:174).

It is argued that the satisfaction of esteem and self-actualisation needs may be a significant factor in understanding entrepreneurship, as entrepreneurship may be viewed as a vehicle towards achieving these needs. Entrepreneurs may be motivated by the esteem which they feel from their engagement in entrepreneurial activities. Furthermore their self-actualisation need may be satisfied by them aspiring to, and then becoming an entrepreneur. However central to this argument, is that it can in no way be suggested that one would not become or be less likely to become, an entrepreneur if the first three (physiological, safety and social) needs are not satisfied. Consequently it is argued that a deficiency in one or more of these essential needs may trigger the individual to consider entrepreneurship and engage in entrepreneurial activities. This may be what is offered by marginalisation theory (Section 4.6).

Maslow's motivation theory offers a useful starting point in examining the influence of individual motivations on entrepreneurship. However it is argued that motivations should not be considered in isolation from goal and expectancy theories.

- Goal Theory

Murphy (2001:10) explained that "goals are the things that people want to do, become, own, or feel; [and] they are achieved by obtaining and deploying resources". Goal theory is examined in the context of entrepreneurship, as Dubrin (1994:119-120) argued that goals not only lead to "improved performance" but also serve as "self-fulfilling prophecies" and he explained that once goals are established the individual will work towards achieving the goal/s. Therefore, a person's goal/s may be to become an entrepreneur, use their time to establish an enterprise, and then use their available and/or unavailable resources in order to attain this goal/s.

However can one suggest that the entrepreneur's personal goals may have consequences for the entrepreneurial process? Can it be suggested that there is a link between a person's goals and the future performance potential of the enterprise? Although Dubrin (1994:120) noted that an individual's goal/s have an effect on the performance potential of the enterprise, he noted that this effect may be positive and/or negative. Furthermore, Chell (2001) noted that current thinking suggests that a business owner's individual reasons and motives are associated with their goals for the future development of their business. Therefore there has been an identified link between goals and entrepreneurial performance.

For these reasons, it may be expected that the most obvious thing to do is to establish the main goals of the entrepreneurs. However, as trait theories have been criticised for assuming that traits are stable, can the same argument be applied to goals? If one were to ask an entrepreneur what are his/her goal/s for their enterprise, it is very likely that the individual would list a number of goals which relate to their lifestyle (age, marital status, number of dependent children or otherwise), type of enterprise established (hobby enterprise, expanding enterprise) state of the economy etc., and that such goals may change over time. Therefore it is important to consider the range of contextual factors which influence the formation of goals and that the goals of the entrepreneur inevitably are more than one, that they are not consistent and will change over time, and that goals may have positive or negative consequences for the established enterprise.

- Expectancy theory

Can we identify what the entrepreneur expects from his/her engagement in entrepreneurial activities? If so, do the expectancies help us to identify reasons for becoming an entrepreneur?

Vroom's (1964) expectancy theory – V.I.E. theory (valence, instrumentality, expectancy), is considered by some researchers to be the most influential process theory of industrial motivation (Smith et al, 1982). Smith et al (1982) explained that the expectancy theory of motivation is a process theory as it looks at the decisions individuals make and furthermore, “it does not assume that individuals come complete with a package of motives to pursue” (Huczynski and Buchanan, 1991:64). For the entrepreneurs this theory relates to what they expect to achieve from their work actions, whilst recognising that their expectancies may change over the development and/or existence of their enterprise. A review of this theory and how it can be applied to entrepreneurship may cast some light as to the reasons why an individual pursues entrepreneurship.

Firstly it is considered that the entrepreneur realises that if s/he establishes an enterprise, and manufactures or supplies a service, then s/he will achieve a goal/motive. Secondly s/he believes that, in doing so, s/he will achieve an outcome. Thirdly s/he has evaluated the likely outcome from his/her entrepreneurial actions. Vroom (1964:1) explained that expectancy theory states that the strength or force of the individual motive to behave in a particular way is a result of three factors:

1. “How much one wants a reward”: how much one wants to become an entrepreneur;
2. “One’s estimates of the probability that effort will result in successful performance”: by using one’s effort in becoming an entrepreneur it will result in a successful entrepreneurial venture; and
3. “One’s estimate that performance will result in receiving the reward”: the individual entrepreneur will be rewarded for their efforts and achievements

Fig. 4.2 presents the formula which is used in expectancy theory:

Fig. 4.2: Formula for expectancy theory

$$F = E \times V$$

Where:

F = motivation to behave

E = the expectation

V = the valence of the outcome

The Theory states that only when **E + V** are positive will **F** exist

Newstrom and Davis (1997:145) explained ‘in most circumstances a number of different outcomes will result from a particular behaviour. The expectancy equation thus has to be summed across all these outcomes resulting in: $F = \Sigma (E \times V)$ ’.

Source: Newstrom, J.W. and Davis, K. (1997:145).

Therefore the entrepreneur will expect that their activities will be successful and that their performance will result in the achievement of a reward, which is termed instrumentality. Furthermore the strength of the motives of the entrepreneurial individual may have consequences for their entrepreneurial activities. However this will depend on the valence of the entrepreneur, which is explained by Huczynski and Buchanan, (1991:64) as “the preference that the individual has for a particular outcome”.

4.6: Sociological approaches

Sociology adds to understanding of the entrepreneurial process by focusing on the individual and a variety of contextual factors, such as the influence of family, friends, previous experiences, marginality, mobility and the social and cultural environment. With this in mind, sociological theories are examined to add to a comprehensive explanation of why individuals have taken the decision to become an entrepreneur, and to aid in understanding of the entrepreneurial process.

4.6.1: Contextual factors which influence entrepreneurship

The starting point for this examination is, can we identify contextual factors which influence entrepreneurship? and if so what are the consequences for entrepreneurial behaviour? It is argued that there are many personal factors that which should be considered in entrepreneurship:

- *Age*: It is recognised in psychodynamic theories that different lifestyle choices are adopted during different time periods in one’s life. In the same way different goals may be established at different stages in the entrepreneur’s life. It may be assumed that entrepreneurship tends to occur at a younger stage of life and this has been noted by some researchers, such as Storey (1994) who argued that areas with young populations tend to have higher rates of enterprise (Section 4.7). Nonetheless, it is argued that the decision to become an entrepreneur can occur at various stages in one’s lifetime but that depending on age, the entrepreneur may have different motives or may engage in different levels of activity. An entrepreneur in the trying twenties age period may be more concerned with establishing him/herself and possibly developing and expanding their enterprise. Correspondingly, an entrepreneur in the deadline decade age period may strive for security and stability, and this may have an effect on the performance potential or expansion potential of their enterprise.
- *Educational attainment*: Whilst Sundbo (1991) argued that the personality of the entrepreneur is created through education, the debate on the importance of education to entrepreneurship has been conflicting. Box et al (1995) have noted that there has been a number of studies which have shown that both age and number of years of formal education correlate positively with entrepreneurial firm performance. Despite this, OECD data have shown that both the least and the most educated persons have the highest

probabilities of being self-employed (Blanchflower, 1998). Therefore it cannot be suggested that those with higher educational attainments are more likely to become an entrepreneur or succeed in entrepreneurship. There have been many entrepreneurs who, have benefited from the university of life and there are those who have established a trade or craft enterprise, and found success in entrepreneurship without formal educational attainments. Therefore one cannot identify the exact relationship between one's level of educational attainment and their entrepreneurial venture. Nonetheless one can argue that any contribution which education makes to entrepreneurship may also be experienced outside the formal educational institution, as it is arguable whether or not one can be educated to become an entrepreneur.

- *Family background:* An overview of the literature has shown that the close relationship and support of the family are important in micro-enterprise activity, for example, Matthew and Moser (1995:374) noted that it was one of the “significant antecedents of interest in small business ownership and career interest”. This was explained further by Birley et al (1990), who argued that entrepreneurs, particularly at an early stage, rely very heavily on their informal network, which not only includes their family members but also involves their friends and social contacts. He noted that the informal network may be important in helping the entrepreneur to gather relevant information for the entrepreneurial venture. Other supports, such as the provision of advice, motivation, physical help and financial assistance, may be received from one's immediate family, and may be important in the day-to-day management and development of one's enterprise. Furthermore many researchers, such as Scherer et al (1988), concluded that role models needed to be considered when studying the entrepreneurial process. Such role models are usually found in the entrepreneur's own family and usually relate to their own mother or father.
- *Marital status:* Meagher (1992) found that self-employed and business owners are more likely to be married than the working population as a whole. Again the consequences of a married individual choosing entrepreneurship may have many influences on the entrepreneurial venture. It can be suggested that the entrepreneur who is married and/or who may have children may desire security for their partner and/or family from their entrepreneurial feat. S/he may in turn choose less riskier business options or limit the growth of their enterprise to a lifestyle venture. Another significant factor is the support received from the marital partner throughout the establishment and development of one's enterprise. Rosa (1993:1) has also indicated that although a business may have no “official co-ownership”, the informal contributions from spouses can be considerable for the entrepreneur. More specifically, evidence from the United States suggested that by having a husband with “some exposure to self-employment”, the probability of the woman becoming self-employed is nearly doubled (Bruce, 1998:1). Bruce (1998:1) further suggested that marriage can be viewed as a “sorting mechanism”, i.e. those who are likely

to become self-employed are more likely to marry a self-employed person. In addition a husband and wife may operate a family run business. Furthermore, he identified that “intra-family flows” of both financial or human capital may be significant factors in supporting an entrepreneur. Devine (1994a and 1994b) has also noted that a working wife is nearly four times as likely to be self-employed if her husband is also self-employed. In this case the support received from the husband encourages the woman to become self-employed and thus the importance of family support is emphasised.

4.6.2: Social and cultural factors which influence entrepreneurship

A number of social and cultural factors can influence entrepreneurship, such as previous work experiences, displacements, the degree of entrepreneurial legitimacy in society and one’s experience of marginalisation:

- Previous work experiences

It is argued that both the level and type of previous work experiences which the entrepreneur has engaged in prior to becoming an entrepreneur may be significant in influencing the type or the development of the entrepreneurial venture. Haynes et al (1999) concluded that if dissatisfaction serves as the primary motivator for the decision to establish an enterprise, then the entrepreneurial process would be affected. They explained, if the source of this dissatisfaction were frustration with the bureaucratic structure they could not control, then this may result in more of the dissatisfied entrepreneurs creating smaller ventures to avoid the bureaucratic situation they left behind. Consequently by choosing to establish small start-ups, they would have a greater level of personal control over their enterprises.

Furthermore, Hisrich (1992) argued that individuals have a tendency to establish successful businesses in fields in which they have previously worked. He added that in many cases the entrepreneurial idea for their own business might occur whilst the individual is working in a particular business position. His study highlighted the importance in influencing entrepreneurship, not only of previous work experiences but also of life experiences. In this case it is argued that, whilst there may not be a direct relationship between one’s previous work experiences and their subsequent entrepreneurial venture, nonetheless their previous work may have contributed to their gaining of valuable skills and knowledge, and their ability to form and expand both their formal and informal networks - both factors needed for successful entrepreneurship.

- Displacement

Displacement has been described as a significant event in the life of the individual and this event may be either positive or negative (Shapero, 1975). Displacement events should be considered in entrepreneurship, as Verheul et al (2002) explained that the establishment of an enterprise might not always be the direct result of simply making the decision to become an entrepreneur. Often this decision is influenced by the “shattering of a previous life pattern” (ibid, 2002:6). This may result in a negative effect which may push the individual into entrepreneurship.

Economic displacement is the most commonly referred to negative event in the literature, and in particular the experience of losing one’s job. It is considered that the individual who experiences job loss may be pushed into entrepreneurship. However once again the research into the relationship between unemployment and entrepreneurship is conflicting. Verheul et al (2002) (also Storey, 1994) explained that there is evidence of a two-way causation in the relationship between unemployment and self-employment. One relationship considers that a high rate of self-employment can lead to high growth levels in the economy and to subsequent low levels of unemployment (e.g. Carre et al, 2002). Correspondingly, low levels of unemployment can serve to stimulate entrepreneurship, because it is an indicator of a thriving economy with ample opportunities for entrepreneurship (Audretsch and Thuirk, 1998).

In Shapero’s (1975) view, job loss, unhappiness at changes in the work setting, or a sudden opportunity to pursue a profitable idea all encompass displacing events. However his research found that negative events were more than twice as likely as positive events to be stated by entrepreneurs as the primary influence on their decision to establish their own business.

- Legitimacy

Entrepreneurs have already been identified as social actors and hence it is argued that entrepreneurial behaviour represents social behaviour. Furthermore it is argued that the individual choice to become an entrepreneur is also influenced by one’s social environment. The entrepreneur is not an isolated actor and therefore must engage in interaction with his/her external environment.

One’s social environment influences entrepreneurship by the level of entrepreneurial legitimacy in society. Entrepreneurial behaviour by nature is regarded as legitimate, of value to and beneficial for society. In turn one could argue that in a society where entrepreneurial activities are considered legitimate, entrepreneurs may be more likely to emerge. However there may also be places where

entrepreneurship is not valued as a legitimate activity and in such cases there would not exist a strong entrepreneurial culture (although this is difficult to prove).

Legitimacy is influenced by societies values and norms, which in turn create culture, and it explains societies acceptance of entrepreneurial behaviour and characteristics. Wilken (1979:9) explained “a normative-evaluative system may not only accord approval to entrepreneurial behaviour but it may also more actively encourage individuals to behave in that manner”. Whilst stressing that entrepreneurial legitimacy was not sufficient by itself, this suggested that in places where entrepreneurial legitimacy is high, there might be high levels of entrepreneurship.

As stated earlier the level of legitimacy influences the culture for entrepreneurship. With this in mind, Curran and Hayes (1998:3) argued that in Ireland:

“Our cultural impediments remain the greatest single obstacle to achieving sustained economic growth in this island of ours. Until we stop living in the puddles of the past and denigrating the successes of those who are trying to build us a viable future, we will never succeed. Such has been our history, such will be our future unless we reform to allow our entrepreneurs the say they deserve in determining our future”.

They attribute the reasons for our poor entrepreneurial culture to our colonial, dependent past, our anti-business educational and social culture, and our begrudgery! (ibid, 1998). Notwithstanding these comments, it is argued that the culture for entrepreneurship has improved, particularly in the decade of the 1990s. This has led to statements such as the 1990s being considered the decade of self-employment (Duggan, 1998). However an appreciation of the contributions which have been made towards improving our culture for entrepreneurship must be considered in light of policy changes and the resulting institutional environment for entrepreneurship. Such issues are examined in Chapter 5.

- Marginalisation

Wilken (1979:11) explained there are two conditions under which marginality promotes entrepreneurship – entrepreneurial legitimacy and social mobility. He explained, individuals who are marginalised are on “the perimeter of a given social system” or “between two social systems”. They may be sourced from a variety of social groupings, such as religious, cultural, ethnic, or migrant minority groups. Consequently their marginal social position is believed to have psychological effects which lead them to favour entrepreneurship as an attractive alternative to them. Therefore those individuals who are marginalised may have a different set of conditions for choosing to become an entrepreneur.

There is a direct relationship between the degree of entrepreneurial legitimacy in a society and the individual’s level of marginalisation (Fig. 4.3).

Fig. 4.3: The influence of entrepreneurial legitimacy on entrepreneurship

		Degree of entrepreneurial legitimacy	
		Low	High
Access to mobility channels	Low	Outsider Entrepreneurship	Non-entrepreneurial-roles
	High	Non-entrepreneurial roles	Mainstream Entrepreneurship

Source: Wilken, P.H. (1979:12)

It has been noted that legitimacy may influence entrepreneurship, as if legitimacy is high more individuals may be inclined to choose entrepreneurship. On the other hand, if entrepreneurial legitimacy is low, more individuals may be likely to choose non-entrepreneurial roles. Wilken (1979) explained that in places where legitimacy is high, entrepreneurship may be used as a mobility channel’ and that “marginals will have to find other roles as means of mobility” (ibid, 1979:11). Wilken’s thinking is illustrated in Fig. 4.3.

He used the terms outsider and mainstream entrepreneurship to represent high and low entrepreneurial legitimacy. In situations where entrepreneurial legitimacy is low and access to mobility channels is also low, there will be cases of outsider entrepreneurship. Correspondingly, in cases where entrepreneurial legitimacy is low and access to mobility channels is high, then individuals may be more inclined to choose non-entrepreneurial roles. In the same way, where entrepreneurial legitimacy is high but access to mobility channels is low, then individuals will favour non-entrepreneurial roles. Finally, in cases where entrepreneurial legitimacy is high and access to mobility channels is also high, mainstream entrepreneurship will occur.

4.6.3: Mobility

The influence of mobility on entrepreneurship is considered in two ways: one’s degree of social mobility and spatial mobility. O’Farrell (1986) noted the lack of consensus in the literature about the relationship between social mobility and entrepreneurship. Generally speaking, one viewpoint claims that a high degree of mobility is positive to entrepreneurship, whilst the opposite view states that a lack of mobility promotes entrepreneurial behaviour. This has been referred to earlier by reference to Wilken’s (1979) theory of marginalisation. However the results are conflicting as to the influence of social mobility on corresponding levels of entrepreneurship.

In summary, Wilken (1979:10) discerned three views about the nature of social mobility on entrepreneurship. He noted a number of research studies which claimed that a high level of mobility is conducive to entrepreneurship. Secondly a lack of mobility may also favour entrepreneurial behaviour, and he noted Hagen's (1968) reference to one's relative social blockage which means that "only some channels of mobility must be blocked". Thirdly, Brozen (1954) distinguished between flexible and rigid settings. He argued that if a setting is too flexible then individuals "will gravitate toward other roles". Correspondingly if a setting is too rigid, entrepreneurship will be restricted.

- Spatial mobility

Mobility may be defined simply as residential movement from one location to another. The decision to move location may be the result of many factors, such as the need to find employment, the presence of higher educational institutions and other services in select locations, marriage, conflict (where one is forced to move) and the desire to travel and experience living and working in other countries. In a more globalised world, the ability to travel is made easier by better communications and cheaper travel methods. Consequently entrepreneurs have a greater choice in deciding where to locate their enterprise and may also pick up many entrepreneurial ideas in their travels.

Mobility also plays a factor in ethnic entrepreneurship, as it has been found that immigrants are over represented in self-employment (Yasser bin Shaikh Idris Mattar, 2001). The reasons for this tendency may be related to marginality, as one may feel marginalised in a location in which they are unfamiliar. In particular cases where individuals have been forced to relocate, they may feel especially marginalised and may therefore consider entrepreneurship as an attractive option. The ease or probability of a marginalised individual becoming an entrepreneur is debatable, nonetheless it is argued that it may be more difficult for a marginalised individual to become an entrepreneur in a location in which they are an outsider, as they have very few formal and/or informal contacts. This is why much research on ethnic entrepreneurship focuses on clusters of ethnic entrepreneurs, such as the well known examples of Turkish entrepreneurs in Germany and Arab entrepreneurs in the U.S.

4.7: Can location factors influence the level of entrepreneurship in a society?

Verheul et al (2002:1) noted that "scholars appear to agree that the level of entrepreneurial activity varies systematically both across countries and over time" (e.g. Blanchflower, 1998; 2000). However they added, that to try to compare levels of entrepreneurship across nations is difficult, for several reasons stated earlier: i) there is no generally accepted definition of entrepreneurship

and, ii) measurement and comparison of the level of entrepreneurship for different time periods and countries is complicated by the absence of a universally agreed upon set of indicators.

Notwithstanding the problems based on definitions and differences in indicators, Bosma and Nieuwenhuijsen (2000) attempted to explain the level of entrepreneurship in a particular country by making a distinction between the supply-side and demand-side factors influencing entrepreneurship. Verheul et al, (2002) explained that demand side factors refer to opportunities which are presented in the market place, such as the industrial structure, whilst supply side factors refer to the demographic characteristics, the institutional environment and attitudes towards entrepreneurship in any one location.

Storey (1994) however went one step further by constructing a specific list of location factors which are thought to favour entrepreneurship. These factors are listed below and are explained in more detail in Chapter 6:

1. Demographics
2. Unemployment
3. Wealth
4. Educational and occupational profile of the workforce
5. The prevalence of small firms
6. The extent of owner-occupied housing

Whilst the above list may help explain why more entrepreneurs are present in some locations, it does not explain the fact that entrepreneurship emerges in their absence.

4.8: Entrepreneurial typologies

In previous sections it was identified that entrepreneurs represent a heterogeneous group of individuals and that entrepreneurship represents an atypical phenomenon. So as to examine specific experiences which individuals encounter in entrepreneurship, researchers tend to focus on specific individuals who are behaving entrepreneurially. As a result, a number of entrepreneurial typologies are found in the literature. The most common typologies referred to are small business owners, family businesses, community entrepreneurs, intrapreneurship, female entrepreneurs, co-preneurship and the government as entrepreneur.

4.8.1: Small business owners

Should individuals who own small businesses be referred to as entrepreneur's, in that they have displayed the capacity and single-mindedness to establish an enterprise, or should they be referred to simply as small business owners or self-employed?

Theory suggests that there is a clear conceptual distinction between small business owners and entrepreneurs. Carland et al (1984:358) distinguished the entrepreneur from the small business owner by identifying particular activities and motives which were specific to each individual. The entrepreneur was characterised as being innovative and involved in pursuing profit and growth. On the other hand, the small business owner's principal objective was seen as the attainment of personal goals e.g. family security. They explained:

“A small business venture is any business that is independently owned and operated, not dominant in its field, and does not engage in any new marketing or innovative practices. An entrepreneurial venture is one that engages in at least one of Schumpeter's four categories of behaviour, that is, the principal goals of an entrepreneurial venture are profitability and growth and the business is characterised by innovative strategic practices”.

Consequently, this distinction resulted in a twofold classification, between macro-entrepreneurs, who were high growth orientated and profit seeking, and microentrepreneurs, who were focused on income stability. Virtanen (1997:10) noted further that other authors “argued that not all small businesses are entrepreneurial nor represent entrepreneurship and also use innovation as the criterion in which to access this distinction.”

Garavan and O'Conneide (1995) developed this two-way distinction by stating that small business owners are people whose businesses consume most of their time and resources and provide most of their income. Unlike the entrepreneur, the small business owner was seen as seldom engaging in innovative practices. Chell (1993) further defined the small business owner as having a business that is independently owned and operated, however it was not dominant in its field and does not engage in any new marketing or innovative practices.

Haynes et al (1999:90) noted Ronstadt's (1985) three entrepreneurial types “which were based on the goals of the business: i) the lifestyle venture, with personal autonomy as a primary goal ii) the smaller profitable venture with financial considerations as a driving factor and, iii) high growth ventures, with sales and profit growth as the key goals”. This three-way distinction suggested that there are some entrepreneurs who have different considerations and goals for their entrepreneurial venture. Consequently this has resulted in the term entrepreneur being applied to certain individuals and small business owners being applied to others.

The above distinctions imply that small business owners are somewhat lesser than their entrepreneurial counterparts and this is further evidenced in the conclusion of Chan and Lau (1993) that small business owners can be considered entrepreneurial only if they display the following four characteristics: i) innovativeness ii) strategic management iii) opportunism and, iv) risk-taking and change orientation. Whilst it is accepted that small business owners often establish imitative rather than innovative enterprises, it is not accepted that they should be distinguished from entrepreneurs

for reasons such as their engagement in opportunism, strategic management practices and/or risk-taking.

Now that it has been identified why a distinction tends to be made between small business owners and entrepreneurs, this leads to the question: what are the consequences of this distinction for an understanding of entrepreneurship? Matthews and Moser (1995) noted that the desire to either work for or to own a small business might depend on the size of the firm in which the individual previously worked, and has had the most experience. Furthermore Strohmeier's (2001) results showed that the larger the firm in which the person was trained the less likely the person was to choose self-employment. The reasons he attributed to the fact that those trained in small firms have greater transparency and that employees of small firms can take in a wider variety of information than in large firms (smaller firms seen as less bureaucratic). He added that the employees could in turn engage in participatory learning which would enable them to become more confident in their own abilities.

Moreover Strohmeier (2001) also noted that theories of labour market segmentation indicated that those trained in small firms have a different set of opportunities for mobility and work careers than those in large firms. This has important implications for self-employment as the probability of those same employees choosing self-employment increases. Consequently the costs, which Strohmeier (2001) explains as occupational mobility costs and human capital costs, of choosing self-employment are also kept low as the individual can use the acquired skills and knowledge attained in their work experience.

4.8.2: Family business

Rosenblatt et al (1985:4-5) defined family business as "any business in which the majority ownership or control lies within a single family, and in which two or more family members are directly involved in the business". Packham et al (2001:7) used the basic definition of family firms employed by Barry (1975) as "an enterprise which, in practice, is controlled by members of a single family". There have been many definitions of family businesses used in the literature and like entrepreneur and entrepreneurship, there is no single agreed definition or, as Westhead (1997:128) has noted, "a lack of consensus surrounding the definition of a family firm". Nonetheless Westhead (1997:127) noted that "in many western developed economies family firms account for over two-thirds of all businesses. Nevertheless "Singer and Donahu (1992) identified two distinct types of family business: the family-centered business, where the business was a way of life, and the business-centered family, where the business is a means of livelihood" (as cited in Packham et al, 2001:4).

In the *How to Start Your Own Enterprise* literature (e.g. Immink & O’Kane, 1997), it is common to find references to the family, and such references include warnings on the implications of business set-up on the family. Such influences tend to be negative and include the long hours spent working for oneself, the tendency to bring work home or the working from home scenario. Furthermore, Kets de Vries (1996:4) has argued that “many family enterprises are quite secretive, jealously guarding their privacy and wary of communication with outsiders”.

However not all influences are negative and the family may be involved in the business in a direct or indirect way. Laferrere and McEntee (1995), in their French study, not only highlighted the importance of the family in the decision to become self-employed, but noted other influence which one’s family can have on the entrepreneur, including intergenerational transfers of wealth, familial transfers of human capital and the structure of the family, as determining factors in the decision to move from wage work into entrepreneurship.

Furthermore the family may be considered as part of the informal network of the entrepreneur and their advice, motivation, capital assistance etc. may be an important factor in helping the entrepreneur to cope with their interaction with external institutions and organisations. Indeed Welter and Smallbone (2001:1) who investigated the role of networks in entrepreneurship, suggested that “informal networks often play a key role in helping entrepreneurs to mobilise resources and cope with the constraints imposed by highly bureaucratic structures”.

4.8.3: Community enterprises

As stated earlier, entrepreneurship and the individual entrepreneur were terms usually associated with the formation of an enterprise and the pursuance of profit opportunities. Lindgren and Packendorff (2001:5) noted however that “enterprise start-ups are not the only form that entrepreneurship can take” (Section 3.7). Entrepreneurial behaviour can be displayed in a variety of ways and can manifest in many different activities.

The earlier distinction made between small business owners versus entrepreneurs suggested that the individual has an established enterprise which is either innovative or imitative, a small business or one that will expand, and that s/he seeks either security of income or profit maximisation. Is there room for the individual who does not necessarily establish a formal enterprise, but nonetheless engages in innovative, risk-taking and opportunistic behaviour for a variety of motives, such as to provide a much needed resource in their local community? Can this type of individual be classified as an entrepreneur, and can their activities be described as entrepreneurial?

A number of recent definitions of entrepreneurship and the entrepreneur have emerged which allow scope for other types of activities to be identified as entrepreneurial. Examples include Kao (1993:134) who defined entrepreneurship as the “process of doing something new or different to create wealth and to add value to society”. This view suggested that an entrepreneur who is involved in meeting society’s economic needs is adding value to society, and hence entrepreneurs are also (either directly or indirectly) meeting our social needs. Consequently it stands to reason that the identification of the community entrepreneur has emerged and their associated activities have been identified as entrepreneurial. The problem is how do we identify community entrepreneurship and make clear what its conceptual boundaries are? and what are the contextual factors which lead to the emergence and support of community entrepreneurship?

Boyett and Finlay (1995:107) defined community entrepreneurs by identifying their following characteristics:

- 1) A leader who displays entrepreneurial characteristics within any organisation and who encourages the development of these characteristics in others;
- 2) An individual who helps new entrepreneurs acquire an enhanced level of self-confidence and develop enterprising skills, such as alertness, awareness and recognition of the benefits of profit gain;
- 3) A manager in a successful entrepreneurial organisation who provides a role model for new entrepreneurs to emulate; and
- 4) An entrepreneur who has not only developed large direct and indirect networks, but is also generous in sharing these networks with new entrepreneurs.

These characteristics recognise the many guises a community entrepreneur can take, such as their propensity to encourage and support others in their entrepreneurial endeavours, their leadership and managerial roles in existing organisations and an individual who recognises the importance of direct and indirect networks. However it is their involvement in providing essential community resources which has earned them most respect in an Irish context. Implicit in community entrepreneurship is their awareness of supports and resources which are absent in their local communities, and/or their identification of social problems. This service or resource may align with their interest in social, environmental and economic interests, but nonetheless they seek to fulfil their entrepreneurial endeavour by being entrepreneurial.

In recognition of this individual or group of individuals providing a service or support in a community, they may achieve a certain status and respect from their community. Furthermore, by engaging in such entrepreneurial activities, an individual may be satisfying their latent entrepreneurial abilities and/or motivations. Such individuals may be retired from their own work or business ventures and may wish to give some of their time (often voluntarily), money and

resources back into their community. In some cases, their ability to couple their social goals with their business goals or work and family commitments may arise from their personal motivation in their venture.

- The contextual factors which lead to the emergence and support of community entrepreneurship

The contextual factors which have led to the recognition and support of community entrepreneurs in an Irish context can be attributed to various policy initiatives, together with changes in the political and social structure, and the identification of the importance of local units in a more globalised world. In 1989 the European Commission established the Social Economic Unit within DG XXIII and in 1993, in the EU White Paper on Competitiveness and Employment (CEC, 1993), recognised the benefits of enterprises and included those in the social economy. In the 1990s the social partnership approach to development was adopted in Ireland, and, with that, there emerged support for community entrepreneurs. Suffice it is to say that it was in the context of this Partnership approach to development that social enterprises received recognition.

4.8.4: Intrapreneurship

Intrapreneurship is a term used to explain entrepreneurship which occurs within an existing organisation. The intrapreneur is not necessarily the owner/manger. S/he is involved in entrepreneurial activities, such as the introduction of change or innovation, within an existing organisation. Kuratko and Hodgetts (1989:654) described intrapreneurship as “entrepreneurial activities that receive organisational sanctions and resource commitments for the purpose of innovative results”.

Sexton and Kasarda (1992) explained that for intrapreneurship to occur within an organisation it must have individuals with entrepreneurial characteristics. Furthermore, there needs to be a support structure in place to encourage and support intrapreneurship. They explained that for intrapreneurship to be successful it requires flexibility, innovative behaviour, autonomy and authority over expenditure.

4.8.5: Female entrepreneurs

Whilst entrepreneurs have been distinguished by the activities they engage in and their characteristics and main motives, goals and expectancies from such activities, female entrepreneurs have also been distinguished from their male counterparts, because of differences they experience in the entrepreneurial process. This has resulted in the suggestion of Cowling et al (1997) that the self-employment of men and women must be understood separately. Consequently attempts to examine female entrepreneurs have resulted in various typologies which recognise their different

roles and activities in entrepreneurship. Chell (2001:159) noted Goffee's and Scase's (1985) fourfold typology of female owner-managers:

1. *Conventional women*: owner-managers who are highly committed to succeeding as wives and mothers as well as being successful in business;
2. *Innovative women*: owner-managers who are more interested in developing a successful business than in fulfilling traditional sex roles;
3. *Domestic women*: owner-managers who give high priority to their families, while giving the business less attention;
4. *Radical women*: owner-managers who generally start their businesses to champion women's issues but do not adhere to traditional business values.

Chell (2001:159) noted that "in this typology there is an explicit recognition of cultural expectations"; by this she explained that "women in general if they work they have a dual role to fulfil". This dual role involves for many women finding and maintaining a balance between home and work responsibilities, which results in many different experiences in becoming an entrepreneur. These experiences may be positive, such as their ability to work from home and therefore look after their children, or they may be negative. Nonetheless they have been used to explain why there are lower numbers of females choosing entrepreneurship in comparison with their male counterparts.

In a review of the literature on gender-based studies, Mukhtar (1998:42) showed that such studies tended to focus on the pre-start up stage of business, and in particular with discrimination in raising finance or on motivations and/or psychological traits of female entrepreneurs in starting new ventures. Therefore they tended to show discriminations which females were experiencing in the entrepreneurial process. Others such as Sexton and Kent (1981) found that female entrepreneurs placed more emphasis on their job than on family.

In a more extensive review of the literature on female entrepreneurship, Carter et al (2001) noted the following issues and barriers specific to female entrepreneurs:

1. With regard to studies based on the characteristics and motivations of female entrepreneurs, differences could be seen in the relative youth of women business owners; women's propensity to start businesses in retailing and service industries; women's lack of prior work experience; and women's desire to start businesses as a means of circumventing the glass ceiling (i.e. barriers to women succeeding in business and/or their career);
2. The search for differences in psychological characteristics between men and women revealed few differences;

3. Research has revealed many social background and business differences between women and men, however conflicting evidence emerged with regard to differences in educational levels, family background and position, ethnicity etc.;
4. There was insufficient research evidence to quantify the importance of women who sought to establish control over their careers due to a lack of progression associated with the 'glass ceiling';
5. Most studies have concluded that the motivations for business start-up were similar, that the processes used by women tended to be slower, that the incubation period for new businesses was longer, and that the structures of businesses used by women were generally similar to men;
6. The majority of studies have shown that women find it more difficult to access resources (finance, human capital and social capital) than do men;
7. A growing number of studies have suggested that start-up constraints for women have a long-term effect on business performance.

Nonetheless the consequences of more women choosing entrepreneurship despite the many negative consequences and experiences revealed in the literature include changes in the role played by women in the home-place, a change in the pattern of childbearing and childrearing, and a change in marriage patterns, organisational practices and labour force characteristics.

4.8.6: The co-preneur

Baines and Wheelock (1997) explained that the term co-preneur has been used for husband and wife teams who venture into business together. The reasons for co-preneurship may be largely practical, such as shared responsibilities for their family security, or other reasons such as shared business interests. Barnett and Barnett (1988:203) suggested the reasons for co-preneurship are to "merge all significant facets of life into a harmonious whole". However other researchers such as Chell (2001:168) argued "when a married couple set up a business together, the work/family conflict of such business/marriage partnerships is potentially more intense than that of a work/family conflict in a dual career family".

4.8.7: The government as entrepreneur

Goodman et al (1992:69) argued "when a government causes businesses to be created through direct actions, it can be said that the government has acted entrepreneurially". Again the idea of government as entrepreneur stretches the definition of the concept further from the boundaries of economics, to incorporate those who are involved in other kinds of entrepreneurial actions. The Irish Government can be said to have acted entrepreneurially in promoting, direct funding, or grant

aiding micro-enterprises and community groups in their establishment of enterprise-supporting institutions. Moreover they have been involved in locating opportunities for business, such as the incentives they have offered to promote FDI, and by favouring investment opportunities in certain parts of Ireland. The justification for providing such supports is presented in Chapter 5.

4.9: The consequences of organisational behaviour in interaction.

In Chapter 5 institutional and organisational theories are examined. The entrepreneur is seen as embedded in an external environment which is composed of other organisations and institutions. The entrepreneurial process involves the entrepreneurs interacting with other organisations and external institutions, in order to obtain the necessary supports and resources needed for the functioning of their enterprise. Their external institutional environment is seen as constraining and/or enabling them in this process, as the institutions are considered the ‘rules of the game’ and the entrepreneurs are the ‘players’ (North, 1990). Therefore this stage of the examination of the entrepreneurial process turns to the entrepreneurs’ experiences of interaction, and, with this in mind the main research questions are:

1. Why is the decision to interact with external institutions and organisations part of the entrepreneurial process?
2. How can interaction be a positive experience for the entrepreneur?
3. How can interaction be a negative experience for the entrepreneur?

In order to understand why the entrepreneur chooses to interact with external institutions and organisations, as part of the entrepreneurial process, it is necessary to study the interaction process (Chapter 5). Essentially, it is argued that entrepreneurs must engage in interaction so as to acquire the necessary resources and/or supports required for the proper functioning of their enterprise. The concept of no man is an island is in the same respect applied to entrepreneurship, as no enterprise is an island and cannot function without interaction. Furthermore the perception of the micro-enterprise as an organisation, allows us to examine the enterprise as a social system, embedded in an environment composed of many institutions and organisations. So as to obtain the much needed resources required for the proper functioning of an organisation, the individual entrepreneur must engage in interaction with external institutions and organisations (such as CEBs, LEADER Companies and Partnership Companies) which control and offer the needed supports and/or resources.

The process of interaction involves a number of fundamental steps. Firstly the entrepreneur must identify his/her need. Secondly s/he must become aware of external organisation/s and institution/s which provide, control and offer that needed support. Thirdly s/he must interact with the organisation or institution, so as to obtain the resource and/or support necessary for the functioning

of their enterprise. Finally, the interaction experience will result in feelings of satisfaction or dissatisfaction with the external organisation.

So as to examine how and why interaction may result in positive or negative experiences for the entrepreneur, some concepts identified in organisational behaviour are examined in this section. Newstrom and Davis (1997) explained that organisational behaviour allows one to examine the behaviour of individuals within an organisation, and, to consider the complexities involved when two or more people interact. For this reason it is useful to examine organisational behaviour to help explain why the process of interaction may be either positive or negative for the entrepreneur.

It is important to state that because it has been identified that interaction may be either positive or negative for the entrepreneur, this implies that the experiences may be different for each entrepreneur. As stated earlier, there are a number of identified stages in the interaction process. The final stage in the interaction process involves the evaluation of the interaction experience: has it been a positive or negative experience for the entrepreneur?, and if so, will this influence their decision to engage in further interaction with that organisation?

It is safe to suggest that if the interaction experience is positive for the entrepreneur it will be beneficial also for their entrepreneurial venture. A positive experience may influence also the entrepreneur's decision to engage in further interaction with the particular institution or organisation. The interaction process is considered positive when the entrepreneur receives the needed resources and/or supports required from the external organisation.

Correspondingly, when the interaction experience is negative, then it stands to reason that the entrepreneur may decide not to engage in further interaction with the institution or organisation. Consequently, it is argued that negative experiences encountered in the interaction process may be the result of one or more of the following factors:

1. Ineffective communication
2. Inter-personal conflict
3. Clash with one's value and belief system
4. Unanticipated regrettable messages
5. Conflict
6. Loss of power
7. Breakdown of trust between the entrepreneur and the external organisation

4.9.1: Ineffective communication between entrepreneurs and external institutions

Newstrom and Davis (1997:49) argued that organisations cannot exist without communication and, more importantly, they stated "with confidence that every act of communication influences the

organisation in some way". The focus of this section is on the influence of communication in the interaction process. How does the entrepreneur communicate his/her need to the external institution? and what are the consequences for ineffective communication in the interaction process?

The entrepreneur communicates his/her need to the external organisation by revealing his/her need for the resources and/or supports controlled by that organisation. The communication process can involve direct or indirect contact, but in the case of the micro-enterprise interacting with an external enterprise-supporting institution, the communication is usually direct and takes the form of face-to-face meetings, and other methods of communication such as e-mail, telephone and fax. The ability to communicate effectively is important, as effective communication will influence and help the entrepreneur identify and communicate their need, justify their reasons for seeking the support or resource and, in many cases, help them in securing the resources and/or supports required.

Ineffective communication may result from personal barriers which are considered as "communication interferences that arise from human emotions, values, and poor listening habits". Personal barriers may also "stem from differences in education, race, sex, socio-economic status and other factors" (ibid, 1997:55). Moreover personal barriers often result in the creation of a psychological distance (ibid, 1997). The consequences of the formation of a psychological distance in interaction may be that the entrepreneur does not engage in further interaction with that source. Furthermore, in the act of communication, the entrepreneur may engage in face-saving to "preserve [their] valued self-concept from attack" (ibid, 1997:54). Consequently the individual regard for their own ability to communicate effectively may be doubted and this may undermine their ability to communicate with other sources in their entrepreneurial network. Ultimately the ability to communicate one's need effectively, and the ability to understand how the other party communicates, is central to the creation of positive experiences in the interaction process.

4.9.2: Inter-personal conflict

Huczynski and Buchannan (1991:152) explained "inter-personal relations are the simplest social bonds which occur when two people stand in some relation to one another". The term considered further means " – 'between persons' - and does not imply that the relationship must be a 'personal' one – it can be an impersonal or an intimate one" (ibid, 1991:152). Therefore inter-personal relations occur, when the entrepreneur interacts with another person in the entrepreneurial process and, although this often involves contact over a long period of time, oftentimes it is entirely an impersonal relationship. Nonetheless it is important that this relationship is good, as inter-personal conflict may result in no further contact between both parties.

Inter-personal conflict affects a person's emotions (ibid, 1997). Furthermore, as there is an innate need to protect one's self-image and self-esteem from damage by others, "when self-concept is threatened, serious upset occurs and relationships deteriorate" (Newstrom and Davis, 1997:313).

A negative inter-personal relationship may occur for the same reasons earlier identified, such as differences in values, education, race, sex, socio-economic status or otherwise. Moreover they may occur as a result of conflict with the entrepreneur's sense of independence, locus of control and the need for achievement, which are identified by some as common entrepreneurial characteristics (Section 4.5.1). The consequences of negative relationships may further result in the creation of a psychological distance, and face saving attempts to justify the negative relationship. Ultimately it is unlikely that the entrepreneur will in future interact with person/s to whom they have formed negative inter-personal relationships.

4.9.3: Clash with one's value and belief system

The entrepreneur may experience a loss of value or conflict with their belief systems, when s/he has to accept the rules and criteria of the external organisation, as a pre-condition to receive the resources and/or supports that the organisation controls. For this reason interaction is not exclusively beneficial. The external organisation's rules and criteria may conflict with the individual entrepreneurs own set of beliefs and value systems and s/he may or may not be able to accept them. In the same way, a loss of value may occur as a result of a conflict with the external organisation's culture, which is defined as "the set of assumptions, beliefs, values and norms that are shared by an organisation's members" (Newstrom and Davis, 1997:102).

However the resources that most external institutions and organisations provide are usually received in a very defined way, in the sense that there are in most cases rules and criteria involved in receiving them. In many cases, the entrepreneur may have to accept the rules, criteria and culture so as to receive the sought resource or support. Consequently, the objection to the external organisation's rules, criteria and culture may lead not only to a loss of value but in many cases to defensive reasoning or cognitive dissonance (ibid, 1997). Defensive reasoning is illustrated in relation to a two-way argument - "when threatened with the potential embarrassment of losing an argument, people tend to abandon logic and rationality, and engage in defensive reasoning" (ibid, 1997:54). The same can be expected when the entrepreneur refuses to accept the values and culture of the external organisation – s/he may blame the organisation and paint the entire organisation with their negative perception.

In the same sense cognitive dissonance may occur and is described as "the internal conflict and anxiety that occurs when people receive information incompatible with their value systems, prior

decisions, or other information they may have” (ibid, 1997:54). Ultimately the entrepreneur has to weigh up the worth of the sought resource and support: is it essential to the functioning of their enterprise? and, in turn, decide whether it is worth compromising or abandoning their own values and beliefs. In either case this experience of interaction may result in an embittered and/or disillusioned entrepreneur, who may be determined to become even more independent from external institutions and organisations.

4.9.4: Unanticipated regrettable messages

A negative experience may occur as a result of a refusal of the external institution or organisation to grant the resource and/or support to the entrepreneur. This refusal may have been unanticipated, and may therefore result in a negative interaction experience. Newstrom and Davis (1997:55) explained that “although such ‘regrettable messages’ are often unintended, they usually create hard feelings in the recipient, place stress on the relationship, or even cause the relationship to deteriorate”. This may be applied to interaction with external institutions and organisations, particularly those which are controlled by the government, as often the entrepreneurs may be informed of their failure to receive the resource or support by a formal regrettable message such as a written letter.

Furthermore the entrepreneur may have believed that s/he was given false hope and therefore did not anticipate the regrettable message received. Consequently a credibility gap may occur, as the entrepreneur may feel that s/he was led to believe that they would receive the sought support or resource. This may result in the entrepreneur failing to trust the external institution or organisation in the future.

4.9.5: Conflict

When the aforementioned negative experiences occur in interaction, it may result in conflict between the entrepreneur and the external organisation. Conflict has been described as “any situation in which two or more parties feel themselves in opposition” (ibid, 1997: 312). It is assumed that interaction between the entrepreneur and an enterprise supporting institution should not result in feelings of opposition, as the latter is responsible for supporting entrepreneurs in their entrepreneurial venture. However, as stated already the source of the conflict may lie in the divergence evidenced in the entrepreneur’s set of beliefs and values and in the external organisation’s culture, rules and criteria for offering resources and supports.

4.9.6: Loss of power

Interaction involves losing some degree of power to the organisation which controls the needed resources and/or supports, as the entrepreneur becomes dependent on that organisation to receive the resources and/or supports required for their enterprise (Chapter 5). It is argued that this loss of power may not be negative for all entrepreneurs, if the power which the external organisation has over the entrepreneur is considered legitimate.

Consequently one source of power which the entrepreneur may accept is legitimate power which is known also as position power and official power, and is usually sourced from higher authority (ibid, 1997). In everyday experiences of interaction with institutions such as one's school and the workplace, there is a hierarchy of power which one should accept. In turn "power is delegated legitimately from higher established authorities to others [and] it gives leaders the power to control resources and to reward and punish others" (ibid, 1997:327). Therefore it is expected that those in higher authority will possess legitimate power over other individuals. In the same way the manager of an enterprise supporting institution will possess a certain level of legitimate power over the individuals which make up the organisation and, in turn, the other individuals who interact with that institution. Therefore for the entrepreneur who accepts this power as legitimate there should occur no conflict.

Other forms of power which the entrepreneur may accept are expert power and reward power (ibid, 1997). Expert power is achieved by possessing knowledge about a particular subject, such that in the enterprise supporting institutions. Those who are responsible for business advice and support services should possess expert power as a result of their knowledge of business. In turn, those who seek their advice and support should respect them. Reward power, on the other hand, is possessed by those individuals who have the capacity to administer the rules and make the decisions on how, who or what receives their supports or services. The Board and evaluation committee of an enterprise supporting institution may possess reward power and, in turn, those who are seeking their support should accept this. Because of the inherent need to be in control of one's enterprise, many entrepreneurs may reject any loss of power which may result from interaction with such institutions. All things considered, this will depend on the individual entrepreneur and their set of values and beliefs, which undoubtedly determine their experiences in interaction.

4.9.7: Trust

During interaction with external enterprise supporting institutions, the entrepreneur is often required to disclose personal business details and other sensitive information as part of the application process. Often this information is general in nature, including business details such as

profit and loss projections, and personal characteristics of the entrepreneur. Nonetheless, the entrepreneur may have difficulty disclosing this type of information, as the very nature of the entrepreneurship is to be independent and in competition with other external organisations. Therefore, in order for this information to be disclosed, the entrepreneur must establish trust with the external institution.

Trust, according to Giddens (1990:34), may be defined as “confidence in the reliability of a person or system, regarding a given set of outcomes or events, where that confidence expresses a faith in the probity or love of another, or in the correctness of abstract principles”. Trust is achieved when both parties feel unthreatened in the company of each other, confident in each other’s ability to do business with each other, and believe that there is honesty in their business relationship and credibility in their communication. It is argued that when there is a breakdown of trust in interaction it will be very difficult to regain it, and consequently this may be negative for future interaction.

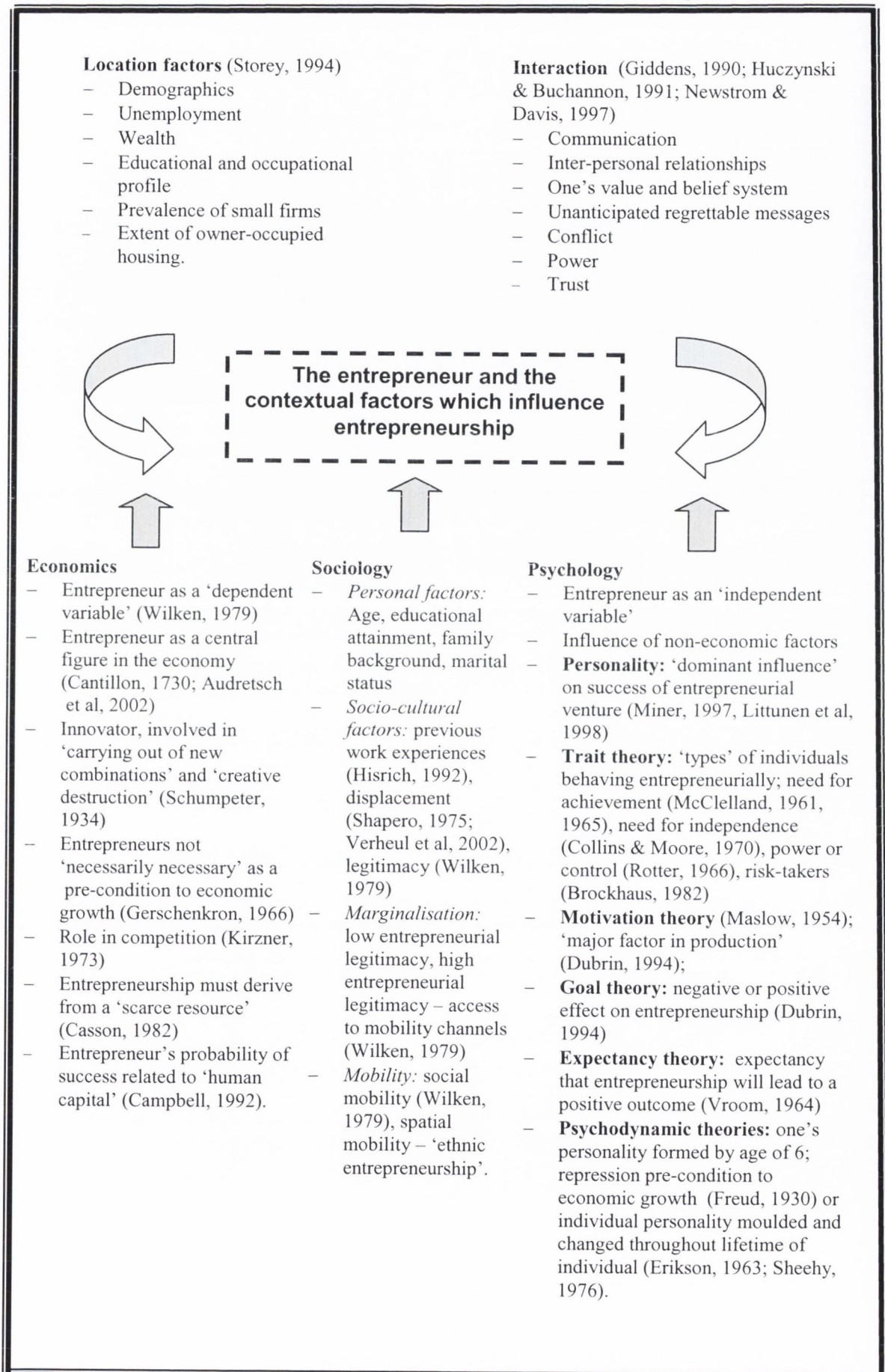
4.10: Conclusions

Verheul et al (2002:1) noted, “there is very little that generates consensus in the field of entrepreneurship”, nonetheless many disciplines have attempted to explore entrepreneurship and therefore this process is grounded in many disciplines, including psychology, sociology, economics and geography. With this in mind, the following eclectic model is proposed which demonstrates the individual and contextual factors which are thought to influence the individual entrepreneur and the entrepreneurial process (Fig. 4.4).

Economic theory was examined for its investigation of the role of the entrepreneurial individual in economic development. Entrepreneurs are generally considered as a dependent variable (Wilken, 1979) for their reliance on certain economic factors which determine entrepreneurship. Although the entrepreneur is often overlooked by economists, nonetheless, some economists have identified the significance of entrepreneurs for their role in innovation, opportunity seeking, risk-taking, moving the market towards equilibrium and meeting economic needs.

Sociological theories examine the entrepreneur in relation to his/her social environment. A number of contextual factors were therefore proposed which are thought to influence the entrepreneurial process. These factors included lifestyle factors, social and cultural factors and the influence of marginality and mobility for entrepreneurship. Location factors were considered also as possible explanations for high or low levels of entrepreneurship in certain locations.

Fig: 4.4: An eclectic model of entrepreneurship (a lot deeply problematic/unhelpful)



Psychological theories focus on the entrepreneur and the importance of the entrepreneurial personality for entrepreneurship. A number of identified traits which were thought to characterise the entrepreneurial individual were examined, such as need for achievement, independence and control. However trait theories are considered by many as untenable, for their assumption of stable characteristics and consistent behaviour and, therefore, the examination turned to a consideration of the influence of motivation, goals and expectancies in entrepreneurship.

A variety of entrepreneurial typologies were examined to bring to light the many ways in which authors have attempted to define the entrepreneur. Consequently, a model was presented which seeks to illustrate a unified model of entrepreneurship in order to present the many contextual factors which influence entrepreneurship (Fig. 4.4).

Casson (1982) acknowledged that society and its institutions have an important influence on both the development and selection of entrepreneurs. It is with this in mind that the contribution which institutional and organisational theories make to the understanding of entrepreneurship is examined in the next chapter.

Chapter 5: Institution and organisation theory

5.1: Introduction

The entrepreneurs in this study interacted with the enterprise-supporting organisations, which were available to them within the external environment, in order to receive the necessary resources and support required for the creation and/or development of their enterprises. Therefore the aim of this chapter is to provide a theoretical and contextual framework within which such interaction can be explained, and the operation and functioning of the external institutional environment can be understood.

The chapter examines the theoretical and empirical literature on institutional and organisational theory and the formation of inter-organisational relationships. It assesses various arguments in support of, and in opposition to government support of enterprise creation. A brief overview of micro-enterprise policy in Ireland is presented, and reference to the adoption of the 'partnership' approach to development in the 1980s and the subsequent establishment of the three partnership initiatives of the 1990s - namely the County Enterprise Boards, LEADER Companies and Partnership Companies is examined. An examination of the 'stages of internationalisation' model (Cavusgil, 1980), which considers the various growth stages of an enterprise is presented, and the chapter concludes with an outline of the different legal structures of businesses.

5.2: Theoretical background

In the context of this study references to the terms institution and organisation are used in the following context: institution or more appropriately institutionalisation is used to describe a "process, something that happens to an organisation over time, reflecting the organisations own distinctive history, the people who have been in it, the groups it embodies and the vested interests they have created, and the way it has adapted to its environment" (Selznick, 1957: 16-17).

An organisation is made up of "a formal structure which has rules and procedures that have become institutionalised" (Cawley et al, 1992:4). In summary, organisation suggests action and change, whereas institution is associated more with stability and continuity (Rowlinson, 1997). A simplified distinction between institutions and organisations is offered by North (1990) who referred to institutions as the rules of a game and to organisations as the team players.

5.3: Institutional theory

Institutionalisation, as earlier stated, describes a process, something that happens to an organisation over time (Selznick, 1957), therefore any examination of the emergence, change and/or interaction between organisations must be examined within the context of the institutional framework under which they were established. This is explained by Rowlinson (1997) who argued that the types of social, political and economic organisations which exist, together with the way they operate, is influenced by the institutional framework. Scott's (1995) institutional framework is used in this study, as it usefully summarises the three pillars, which make up or support institutions (Table 5.1):

Table 5.1: Varying emphases: three pillars of institutions

	<i>Regulative</i>	<i>Normative</i>	<i>Cognitive</i>
Basis of compliance	Expedience	Social obligation	Taken for granted
Mechanisms	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules, laws, sanctions	Certification, accreditation	Prevalence, Isomorphism
Basis of legitimacy	Legally sanctioned	Morally governed	Culturally supported, Conceptually correct

Source: Scott, R.H. (1995:35).

Scott (1995:33) defined institutions in the following way:

“Institutions consist of cognitive, normative and regulative structures and activities that provide stability and meaning to social behaviour. Institutions are transported by various carriers – cultures, structures and routines – and they operate at multiple levels of jurisdiction”.

Scott (1995) explained that there is variation in the extent to which the cognitive, normative or regulative facets of institutions are emphasised, as well as whether cultures, structures, or routines are viewed as the primary carriers. Under the regulative system (Table 5.1), he explained that because individuals and organisations have interests, sometimes conflict and differences will emerge and will need to be resolved. Consequently, rules and laws must be established (regulatory machine), and in turn, the actors obey these rules chiefly out of self-interest but also out of expedience to avoid sanctions. Rules are therefore established and may be enforced by coercion (DiMaggio and Powell, 1991). However it is likely also that rules which may be very beneficial to people may also fail to be established, as he added, the need for a particular rule does not necessarily lead to the existence of such.

The normative element in the framework refers to one's moral beliefs and obligations as one is not necessarily guided by self-interest and expedience, but also by the individual's awareness of one's role in the social situation. This role will encourage individuals to behave according to what is

deemed appropriate and that which will accord with societies expectations. Therefore the institutional mechanisms at work under the normative system are not coercive but normative processes (DiMaggio and Powell, 1991). Entrepreneurial behaviour is accepted in society as it is generally deemed to be good for the economy. The entrepreneurs in turn have a moral obligation to society and are expected to behave in a certain way, and to engage in entrepreneurial activities, which are accepted and appropriate to societies members.

Using the cognitive perspective, institutions are viewed as knowledge systems. This perspective considers behaviour as being controlled by peoples conception of what they believe the world is and therefore the kinds of action that can be taken by different types of actors. The entrepreneur might view the world as a place of opportunity, where risk-taking is the norm and where entrepreneurial activities are rewarded. Their internal locus of control may mean that they are not hindered or do not dwell on the bundles of rules which govern the society in which they live, thus they are able to adapt to the rules which impact on their entrepreneurial activities, as they believe that this is what is necessary to become a successful entrepreneur.

Lawrence et al (1999:4-5) provided a further definition to explain how and why activities become institutionalised:

“Institutions are practices, technologies, or rules that are institutionalised in ways that make it costly to choose other practices, technologies or rules”.

Practices can be considered as patterns of action that have become institutionalised. When examining the practices of any particular organisation, one would look at the organisation's actions, goals and outcomes. In the context of this study, the practice of organisations interacting with other organisations is examined, as it is argued that organisations are unable to generate necessary resources internally, and therefore have to seek resources controlled by other organisations. Similarly the practice of co-operation and co-ordination of activities and resources amongst the enterprise-supporting organisations is also considered, as this forms inter-organisational relations (IORs) which in turn lead to less costly methods for supporting micro-enterprises. Such interaction is made easier as the organisational forms in the study are similar and it is beneficial for them to interact with one another.

Technologies have been described as the ‘toolkit’ that makes practices possible. An example of the technologies employed by the enterprise-supporting organisations in order to encourage interaction with their clients, i.e. the entrepreneurs, are the various economic, social, cultural and environmental incentives to support those who seek to establish and/or develop a micro-enterprise.

The enterprise-supporting organisations could not exist without formal rules and procedures upon which the criteria for supporting micro-enterprises are based. The rules are laid down by the

individual government departments and are manifested in their individual action plans. As stated earlier, the rules which are established often result in conflict between the entrepreneurs' interpretation and/or acceptance of such rules. In the same way entrepreneurs have to abide by many rules when they are establishing an enterprise, as society (or most members of society) will not accept or support illegitimate enterprising activities.

5.4: Organisational theory

- What are organisations?

“Organisations are all around us and thus we tend to take their existence for granted” (Aldrich, 1979:2). Indeed this is a fact, there are: organisations of many sizes – large and small, (micro-enterprises, large enterprises); organisations of many interests - social, political, economic, cultural and environmental; organisations with many different goals; and organisations with different management structures – one owner manager, multiple shareholders etc. In the preceding section the institutional framework under which organisations are formed and the methods by which they change were presented. In this section organisation theory is examined so as to understand how organisations are established. There are a number of definitions of organisation proposed, of which the following are of particular interest to this study. Hall (1999:30) defined an organisation in the following way:

“An organisation is a collectivity with a relatively identifiable boundary, a normative order (rules), ranks of authority (hierarchy), communications systems, and membership coordinating systems (procedures); this collectivity exists on a relatively continuous basis, in an environment, and engages in activities for organisational members, for the organisation itself, and for society”.

Therefore organisations are made-up of individuals who follow the rules and procedures of the organisation and interact with their external environment. Other more succinct definitions include Aldrich (1979:4), who defined organisations as “goal-directed, boundary maintaining, activity systems”. The classification of organisations for the purposes of this study follows the definition proposed by Aldrich (1979) and it has relevance also to the work of the supporting organisations:

1. Organisations are “goal-directed”: the micro-enterprises are examples of small organisations which have economic, social and/or personal goals set by their individual owner manager, i.e. the entrepreneur. In the same way the enterprise-supporting institutions are organisations guided by established goals, to support the creation and development of micro-enterprises in their region.
2. Organisations are “boundary-maintaining”, the enterprises are boundary maintaining by having a legal status of ownership and by producing goods and/or services and selling them to other organisations and individuals. In the same way enterprise-supporting organisations provide supports to those people who wish to become micro-entrepreneurs but they do not provide supports to large organisations such as multi-national companies, as there are other

established organisations in place to support this sector. Therefore there is a clear boundary between those who are supported and those who are not. This is necessary because the control of an organisation boundary is considered to be critical for the maintenance of organisation autonomy.

3. Organisations are “activity systems”. The micro-enterprises can be referred to as activity systems; they produce a product or supply a service and involve people such as employers, family, employees, suppliers and many others in this process. In the same way the enterprise-supporting organisations work collectively to seek out nascent entrepreneurs, provide supports to establish and create micro-enterprises and develop action plans to consider the potential for the development of their region.

- Theoretical approaches to organisation theories

Broadly speaking analysis of organisation theories can be classified into two theoretical models. The closed system models (e.g., Taylor, 1911, Weber, 1968) are concerned with the environment, which is regarded as unproblematic, and thus the analysis is focused largely on the internal structures of organisations. On the other hand, the open systems models focus on the interaction between organisations and their external environment. The environment is viewed as problematic and therefore the analysis focuses on the relationship between organisations and their ability to deal with problems presented to them by their environment. The focus of this study is concerned less with the closed system models and more with the open systems models of organisation theories. The open systems theories considered include the Population Ecology Theory and the Resource Dependence Theory, as they focus on the interaction of the organisations with their external environment (Section 5.4.1; 5.4.2).

As the individuals at the centre of this study are practising entrepreneurs their experiences in interacting with their external environment, and in particular with enterprise-supporting organisations, lie at the centre of investigation (Chapter 7). Furthermore the characteristics of the micro-enterprises in the sample are examined with regard to their ability to adapt, survive and spot opportunities within their external environment (Chapter 6). However firstly, it is necessary to place organisation theory in the context of why organisations exist in society, the influence and importance of their internal and external environments, why some organisations may appear similar, and finally how and why it is necessary for organisations to seek and form inter-organisational relationships.

5.4.1: Why do organisations exist?

A number of theorists have proposed a variety of reasons to explain why organisations exist in society. Essentially they exist because they help individuals to accomplish collectively that which

cannot be accomplished by people working on their own (Aldrich, 1979). Hall (1999:10) considered that organisations have “controlling interests” and that such interests shape the directions that organisations take. Therefore an organisation is formed for a purpose/goal/interest, for example, the CEBs were established to support micro-enterprises and therefore the supports they provide are targeted towards enterprise creation and/or development. In the same way the entrepreneur establishes a micro-enterprise in the pursuit of a single goal or multiple goals: economic, social, personal, cultural and environmental.

Organisations exist to reduce uncertainty and risks in human action (North, 1990). The uncertainty and risk involved in establishing and developing a micro-enterprise is addressed and supported by the establishment of institutions, which help to counteract some of the uncertainty and risk involved. Furthermore, organisations help bring order into peoples lives (Hoerning and Corsten, 1995) and this can be achieved by the collective action of individuals in an organisation, or the formation of rules or procedures by which to achieve the organisation's goals. Hall (1999:2) argued “organisations have outcomes”, and the outcomes from the organisations involved in this study are manifested in the products, services and/or supports they offer, which may result in job creation, economic growth and an improved entrepreneurial climate. Moreover, to “achieve change there must be organisation” (ibid, 1999:18). Often we tend to think that if we invest in the necessary infrastructure (roads, technology, infrastructure etc.) that entrepreneurship will happen, however if the right culture is not in place this will be difficult. Therefore the institutions established to offer supports to the micro-enterprise sector not only changed the way the Irish Government viewed and supported this sector, but may also have changed the way the entrepreneurs viewed society’s acceptance and value of the micro-enterprises created by them.

5.4.2: The Environment

“The organisational environment is said to be all those elements which exist *outside* the organisation boundaries that have the potential to affect the organisation” (Chell, 2001:27 – my emphasis). Aldrich (1979) proposed a more comprehensive understanding of what constitutes the environment. He explained that the organisational environment should not only be perceived as all those elements which are external to the organisation, but rather should consider concentrations of resources, power, political domination and, other organisations. Therefore in order to understand the environment of the organisations involved in this study it is necessary to examine the political, economic, social and cultural context within which they were established (Section 5.8).

Cawley et al (1992:6) distinguished between the “internal environment”, i.e. “the internal structures” of the organisation and the “external environment”, i.e. “the socio-cultural, economic and political structure outside the boundary of the organisation”. Furthermore they added that an organisation might have a “task environment”, elements which are external to the organisation and

are either directly or potentially relevant to the achievement or formation of the organisation's goals. The task environment for the institutions involved in this study, are stipulated in the guidelines as laid down by their respective government department (Section 5.8). It is necessary and important to examine the task environment of these organisations as Gibb and Haas (1996:203) noted that organisation design is a function of the characteristics of its task environment.

If this is taken as true, then one must view organisations as firstly influenced by their external environments and secondly that they must be able to adapt to their external environments. Indeed Aldrich (1979:54) went so far as to argue, that it is a "thriving organisation" which is adaptive to its environment, implying therefore, that those organisations which are unable to adapt to their external environment may become unsustainable. Moreover Smallbone et al (2002) suggested that in comparison with larger firms, smaller firms have a limited ability to shape their external environment. Nonetheless, they added that small firms survival and growth depends on their ability to respond to the threats and opportunities presented by their environment. Nevertheless Cawley et al (1992) explained that organisations can adopt strategies in coping with their external environments. Such strategies include competition, co-operation, co-opting, coalition etc., however again it is implied that it is only those organisations which are able to adopt such strategies which will survive. Conversely organisations can also be protected by their environments, by moving away from external relevance and in such cases the organisations may be referred to as "ossified organisations" (Aldrich, 1979:46). The example given to illustrate these types of organisations are public bureaucracies which are too often accused of being caught up in red-tape and in that respect being non-responsive to their clients.

Nonetheless the external environment is of particular importance to geographers, and their interest in enterprise creation relates to this co-dependency relationship which exists between the enterprises and their environment, taking into consideration the range of supports and resources available in the external environment, and the economic, social, cultural, political and physical changes such enterprises make to the environment. So as to focus on the particular environmental factors influencing and affecting entrepreneurial organisations, Littunen et al (1998:191) has grouped a range of specific influences into the following categories: "i) the general pre-requisites for entrepreneurial activities offered by the region; ii) the effects of the region on the characteristics of the firms in it; and iii) the effects of the region on the entrepreneurs heading those firms". Aldrich (1979) expanded on the range of influences by offering a summary of six types of environments. Although the six are presented as independent units, he explained they are used in combination when analysing organisational change (Fig. 5.2).

Table. 5.2: Dimensions of organisational environments

Environmental Capacity: The relative level of resources available to an organisation within its environment, varying from lean or low capacity to rich or high capacity environments.

Environmental Homogeneity-Heterogeneity: The degree of similarity between the elements of the domain population, including individuals and organisations. Varies from undifferentiated or homogenous to highly differentiated or heterogeneous environments.

Environmental Stability-Instability: the degree of turnover in environmental elements.

Environmental Concentration-Dispersion: The degree to which resources, including the domain population and other elements, are evenly distributed over the range of the environment. Varies from random dispersion to high concentration in specific locations.

Domain Consensus-Dissensus: The degree to which an organisation's claim to a specific domain is disputed or recognised by other organisations.

Turbulence: The extent to which environments are characterised by an increasing interconnection between elements and trends, and by an increasing *rate* of inter-connection.

Source: Aldrich, H.E. (1979:74).

The environment types shown above are a useful classification for appreciating the many types of environments in which organisations are embedded. The categories proposed which are of particular interest to this study include the environmental capacity, as it is explained that organisations in a rich type of environment will have access to a richer supply of resources. However it must be borne in mind that such organisations will also be in competition for these resources with the other organisations in that environment. With this in mind, Aiken and Hage (1968) argued that the need for resources is an important determinant in forming inter-organisational relationships (Section 5.5), and in this respect, it is considered that rich environments may be viewed as preconditions to the formation of such inter-organisational linkages.

The environmental stability-instability classification distinguishes between a stable and an unstable environment. In this type of environment more established organisations are more likely to survive. Correspondingly, in an unstable environment the more older and established organisations may have more difficulty adapting and coping with change in comparison with more newly established organisations. This type of environment is of particular interest to the study of enterprise creation, as it might shed light on the reasons why so many small enterprises fail in the first few years of establishment, and why some older enterprises have survived over many decades.

Lastly Levine and White (1961) noted that the environment type – domain consensus-dissensus, is also of interest, as it considers the extent to which organisations lay claim to particular domains and

in effect how this is recognised and/or challenged by other organisations. This would consider the degree of duplication of activities and supports amongst the enterprise-supporting organisations and how this is recognised and dealt with by the entrepreneurs and other institutions.

5.4.3: Population Ecology Theory

Population Ecology Theory is an example of one of the open system models of organisation theories, and has also been referred to as the “natural selection model” (Hall, 1999:275). According to this theory, organisational change can be explained by focusing on the nature and distribution of resources in the organisation’s external environment, as opposed to focusing on leadership or participation in decision-making within the organisation (ibid, 1979). Therefore it is the degree to which organisations meet the “environmental fit” (hence “natural selection”) which is important, and therefore “the direction of change in organisations is simply toward a better fit with the environment” (Hall, 1999:275).

As earlier stated, there are different types of environments and they vary in relation to their availability of resources (Table 5.2). Essentially in order for an organisation to survive and/or grow, organisations have to change so as to establish an appropriate organisation-environment relationship (Westhead, 1997). This will also be influenced by the degree of legitimacy and the ability of organisations to compete in “saturated” and “hostile” market (ibid, 1997:130). The importance of organisations gaining legitimacy is examined in Section 5.4.3.

Within Population Ecology Theory, Aldrich (1979:28) used three stages - variation, selection and retention, as developed by Campbell (1969) to explain the organisational change process:

- *Variation:* Pfeffer (1982) argued that variation across organisations is established usually at the time when organisations are founded. He noted Stinchcombe’s (1965) argument that organisations will match the context under which they are established. To illustrate, different products and services in demand in the past may become redundant, as new technologies, ideas, demands and discoveries are introduced to suit particular needs and a particular time. In this respect, variation may occur between organisations, within organisations and over time in the performance of the organisations activities. In the context of enterprise creation, as the likelihood of new firms being founded or emerging increases, so to does variation increase within a population. To illustrate, many entrepreneurs may discover the entrepreneurial idea whilst travelling to other parts of the world or from the demand in the market for the ideas and products from people who had also travelled, or were from other parts of the world. This will introduce more variation in the local population, which the entrepreneur can in-turn capitalise upon. This is further reinforced by Pfeffer (1982:185) who added “variations are also diffused through a process

of vicarious learning, in which others read or see demonstrated a variation that they then take back to their own organisation”.

- *Selection*: this can establish new or changing organisational forms and is usually the result of environmental constraints. Therefore, organisations which fit environmental criteria are selected, and are more likely to survive as a positive organisational/environmental relationship is established. Correspondingly, organisations which fail to change and/or fit environmental criteria may cease to exist. Therefore the enterprises must fit their environmental criteria in order to survive. Aldrich (1979) recognised that environmental selection of organisations will occur most often with small businesses, organisations not subsidised by governments, and voluntary organisations. More importantly for enterprise creation, he noted that some organisations may fail because they happen to be in the wrong place at the wrong time. This may be true especially in the presence of competition, as noted by Pfeffer (1982:186) “selection occurs principally through the competition among forms” (Hannan and Freeman, 1977).
- *Retention*: Pfeffer (1982) argued that retention involves the maintenance of an organisational form into the future. Retention is affected by environmental and organisational characteristics, and is also facilitated by commitment processes (Staw, 1976; Salancik, 1977). Aldrich (1979:49) offered a useful illustration: “the characteristics of a bureaucracy...can be thought of as contributing to the retention of a specific organisational form” (ibid, 1979:49). This lends support to the idea that it is those organisations established by governments which are more likely to be retained in the environment.

In the context of this study, therefore, one can link Population Ecology Theory to the study of entrepreneurship as the control of the external environment on enterprise creation and/or development is important and to consider questions such as: i) in what type of environment are the organisations in the study embedded? ii) are the necessary supports and/or resources required by the organisations available to them in their external environment? iii) does the local market value want or need the products and services on offer by the micro-enterprises? and, iv) how dependent are the organisations on their external environment, i.e. on those organisations which own or which are in control of the resources and/or supports required by them?

In Chapter 4 it was argued that central to the creation of enterprises, is the ability of the individual entrepreneurs to spot opportunities in their environments and to take control over possible or actual environmental difficulties, which may hinder the creation, development and/or survival of their enterprises. However Pfeffer (1982:191) argued “there is little room in Population Ecology for elements of rational choice and for the operation of goals, preferences, wants or ambitions”. Therefore it is argued that, whilst Population Ecology Theory is useful in the context of its importance in emphasising the significance of the external environment, it downplays the

importance of the entrepreneur. This has resulted in the Amit et al (1990) question: to what extent is the success achieved by the entrepreneur determined by the environment, rather than the skill, ingenuity and decision of the entrepreneur?

Entrepreneurs may be faced with uncertain, problematic environments; however their enterprises may still survive by the actions, foresight and energy of the individuals together with the supports available in their external environments. Similarly, in response to the high unemployment rate and low economic growth in the past (Section 5.7), the Irish Government has acted entrepreneurially in establishing enterprise-supporting organisations to counteract the problems posed by an unfavourable economic environment. Therefore whilst it is important to study Population Ecology Theory in the context of the importance of the external environment, the next section focuses on Resource Dependency Theory in an effort to examine the individual's role in counteracting external environmental constraints.

5.4.4: Resource Dependence Theory

The central principle of Resource Dependency Theory has been noted by Westhead (1997:129): “organisations have to enter into transactional relationships with environmental factors because they cannot generate all necessary resources internally” (Pfeffer and Salancik, 1978). Although organisations are externally constrained by environmental criteria, unlike Population Ecology Theory, this theory allows for the consideration of internal structures and decision making processes within organisations, together with the ability of the organisations to manage, influence or adapt to their external environments (Aldrich and Pfeffer, 1976).

Therefore in this context it is recognised that the entrepreneurs cannot generate all the necessary resources needed for the functioning of their micro-enterprise, and therefore have to engage in interaction with their external environment. The key to their organisational survival, therefore, is their ability to acquire and maintain critical resources and information necessary for the establishment and/or development of the organisation. As the organisations are embedded in an environment which consists of multiple organisations, it is up to the individual organisation to seek the resources and supports required for its functioning and hence survival. The theory allows for the inclusion of the individual in this interaction process – it is the individual entrepreneur who decides that s/he requires resources and/or supports and therefore it is the individual, who acts on this decision, by seeking the required resources within his/her external environment.

However, in order for such interaction to occur, the resources required by the entrepreneur must be available to him/her within their external environment. Birley and Westhead (1993) have termed the degree of resource abundance in an environment as ‘munificence’. In the context of this study,

the munificence of the environment may be understood in relation to the richness of the environment for enterprise creation as illustrated in Table 5.2.

In the same way as enterprises are dependent on the supports and resources available to them in their environment, so too, the enterprise-supporting organisations are dependent on their environments for their survival. As the individual entrepreneurs are the clients of these institutions, they are therefore encouraged to interact with them, in order for them to remain sustainable. The institutions encourage interaction by offering incentives such as supports and/or resources to the entrepreneur.

In Chapter 4 the various theories which have been put forward to explain entrepreneurial behaviour referred to individual traits and the degree of human capital as central to the emergence of the entrepreneur. Such theories have attempted to explain why some people are more able and/or suited to entrepreneurial behaviour, which favours their ability to respond to threats and opportunities in their environment. It has been argued that the entrepreneurs particularly those with a high internal locus of control, seek to influence, shape or control their environments in order to receive the resources required. Therefore the importance of the individual entrepreneur as the active agent in this process is stressed, and this is recognised in Resource Dependency Theory, as it asserts that managers are significant in the decision on how to acquire resources and how the organisation should cope with environmental constraints. Furthermore it is noted that it is the person (manager) who makes the decision that has the autonomy in an organisation.

Moreover the individual is important in counteracting, preventing or downplaying the dependency relationship which forms when one requires the resources and/or supports offered by another organisation. Resource Dependency Theory proposes that the need for resources in the environment produces a dependence on the organisation that controls the needed resource. Nonetheless Aldrich (1979) noted that organisations will attempt to avoid becoming dependent on others and will in fact seek to make other organisations dependent on them. This notion of dependence is taken up in a later section on inter-organisational relationships (Section 5.5). In summary therefore Resource Dependency Theory allows for the inclusion and examination of the individual in the interaction process as s/he makes the decision to seek and attain required resources available to them in their external environment.

5.4.5: Legitimation

As it is recognised that organisations affect society, society must therefore accept and value an organisation if it is to be sustained. The acceptance and value placed on an organisation is hereafter referred to as legitimation. In the context of this study legitimation is fundamental to the process of interaction, because it is argued that if the users of the enterprise-supporting organisations do not

perceive the practices, rules and technologies employed by the institutions as legitimate, then they are unlikely to engage in interaction. Similarly if the products and services offered by the enterprises established do not appear legitimate to its customers, they are also likely to be rejected. For the purposes of this study, Scott (1995) and DiMaggio & Powell (1983) models will be used to gain an understanding of how organisations gain legitimacy.

With reference to an earlier Table (5.1) by Scott (1995), three bases were used to explain how organisations gain legitimacy. These are roughly summarised as:

1. Regulatory element - (rules, laws, sanctions);
2. Normative element - (social obligation, norms, values);
3. Cognitive element - (symbols, beliefs, social identities – why things have always been done the same way).

As institutions seek legitimacy they may appear similar and this similarity has been referred to by DiMaggio and Powell (1983) as isomorphism. They argued that organisations are under great pressure to become isomorphic. Furthermore, they added that if they become more similar it is because they are either influenced by coercive, normative or mimetic pressure, all three of which may operate at once:

1. *Coercive*: When organisations are forced to act in a certain way by either another organisation or a cultural expectation, e.g. their government;
2. *Mimetic*: Mimetic isomorphism is a result of the organisations imitating each other when faced with uncertainty (Rowlinson, 1997);
3. *Normative*: Normative isomorphism occurs when normative pressures appear as a result of the professionalisation of organisation members (ibid, 1997), e.g. when managers at different organisations are trained in similar ways or when they interact professionally.

The enterprise-supporting organisations at the centre of this study appeared to offer similar types of support and engage in similar types of activities (Chapter 7). This can be explained by reference to the similar characteristics which they share which make them legitimate:

1. They are established at the local level – regional, county, local;
2. They have the same legal status, i.e. limited companies;
3. They are governed by their respective government departments;
4. Their clientele are mainly those persons wishing to become self-employed and to establish and/or develop an enterprise – such a person may be previously unemployed, aspire to become an entrepreneur or may already manage an established enterprise;
5. They provide a range of services - financial, soft supports or otherwise to help establish and/or develop micro-enterprises;
6. They depend on EU, Irish Government and local support.

Despite their similar characteristics, they also have many differences and such differences are described in Section 5.8.

5.5: Inter-organisational relationships

As earlier stated, organisations are embedded in an environment which is composed of multiple organisations. Consequently it is argued that for an organisation to obtain necessary resources from another organisation it is necessary to interact, and in so doing they form inter-organisational relationships. The most common methods by which the institutions form inter-organisational relationships are by co-operation and co-ordination of their activities, personnel and/or resources. The reasons why such inter-organisational relationships may be beneficial or necessary for the institutions can be explained by reference to Van de Ven and Ferry's (1980:317) model of inter-organisational relationships. They consider that inter-organisational relationships emerge as a result of:

1. A need for resources or a response to external issues;
2. Inter-organisational communication to spread awareness and consensus;
3. Resource transactions;
4. Structural adaptations and pattern maintenance over time.

Therefore organisations interact for a variety of reasons but essentially to acquire much needed resources controlled by other organisations. There are different forms of inter-organisational relationships:

1. *Dyads*: These are direct relationships between two organisations;
2. *Joint ventures*: Joint ventures are formed when two or more organisations form a new organisation;
3. *Sets*: An organisation set "consists of those organisations with which a focal organisation has direct links" (Aldrich, 1979: 279);
4. *Alliances* : Organisations form alliances usually with organisations of similar goals;
5. *Networks*: Each participation organisation has interactions with each other organisation, and in so-doing forms a network.

The focus on inter-organisational relationships in the context of this study is in particular to the entrepreneurs' interaction with the external enterprise-supporting organisations. Aldrich (1979:278) provided a useful summary of the four dimensions that make up inter-organisational relationships, which are worth considering in the context of this study (Table 5.3).

Table 5.3: Dimensions of inter-organisational relations

1. Formalisation
 - a) *Agreement formalisation*: the extent to which a transaction between two organisations is given official recognition and legislatively or administratively sanctioned.
 - b) *Structural Formalisation*: the extent to which an intermediary organisation coordinates the relationship between two or more organisations.
 2. Intensity
 - a) *Amount of resources involved*: the magnitude of an organisation's resource committed to a transaction or relation.
 - b) *Frequency of interaction*: the amount of contact between two organisations, in either absolute or relative terms.
 3. Reciprocity
 - a) *Resource reciprocity*: the extent to which resources in a transaction flow to both parties equally or benefit one unilaterally.
 - b) *Definitional reciprocity*: the extent to which the terms of a transaction are mutually agreed upon.
 4. Standardisation
 - a) *Unit standardisation*: the extent of similarity between individual units of the resources in a transaction.
 - b) *Procedural standardisation*: the degree of similarity between individual units of the resources in a transaction.
-

Source: Aldrich, H.E. (1979:278).

The degree of formalisation between the interaction of entrepreneurs and the enterprise-supporting organisations is considered, particularly with regard to the entrepreneurs' perception of such formalised interaction (Chapter 7). The intensity of the inter-organisational relationships formed is also under examination, as the amount and types of resources received, the frequency and method of interaction and the plausibility of further interaction is considered (Chapter 7). Finally the degree of resource reciprocity and definitional reciprocity is examined in relation to the entrepreneurs' perception of receiving external supports and the extent to which s/he perceives and agrees with the terms upon which they are received (Chapter 7).

5.5.1: Consequences of forming inter-organisational relationships

Lawrence et al (1999) argued that research on collaboration has suggested that successful collaboration will be associated with more intensive interaction. As the external environment is made up of many organisations, it is accepted that organisations depend on other organisations

within their environment to obtain the needed resources. This dependence relationship is one of the consequences of forming inter-organisational relationships. Pfeffer (1982) noted that interdependence is significant because not only does it affect the organisation's ability to achieve things that it wants, but it also affects the survival of the organisation. Aldrich (1979) explained that an organisation becomes dependent on another organisation and thus might be required or forced to comply with requests which are inimical to its own interests. Emerson's (1962) definition of dependence is used by Aldrich (1979) to illustrate this relationship:

"Emerson (1962:32) defined dependence of an actor *A* (which may be an individual, group, or organisation) on another actor *B* as 'directly proportional to *A*'s *motivational investment* in goals mediated by *B*, and inversely proportional to the *availability* of those goals to *A* outside of the *A-B* relation'. If *A* cannot do without the resource(s) mediated by *B*, and is unable to obtain them elsewhere, *A* becomes dependent on *B*. Conversely, *B* acquires power over *A*. Note dependence is an attribute of the *relation* between *A* and *B*, and not of *A* or *B* taken in isolation".

Therefore it is accepted that the entrepreneurs become dependent on the institutions when they require the resources controlled by them. Their individual degree of dependence on the institutional support is reflected by the level of dependence on that support/s for the functioning of the enterprise. The institutions may acquire some degree of power over the entrepreneur, as the granting of supports is dependent on the entrepreneur revealing personal business information, and conforming to the rules, goals and procedures upon which the support/s is granted. If the entrepreneur is unable to obtain the support/s elsewhere, s/he will conform with this criteria; however the ability or acceptance to conform may also be dependent on their motivational investment in the goals of the institution. On the other hand, if their ability to conform is less than the degree of motivational investment in the support/s, then they may reject the institutional support/s. This may have implications for further interaction with the institutions.

However in the context of Resource Dependency Theory, organisations try to form "favourable relations" with other organisations, as the Resource Dependency Theory recognises that "avoiding or exploiting dependence relationships is a central dynamic of inter-organisational fields" (ibid, 1979:265). Although Emerson's (1962) definition involves a simple description of the dependency which exists between actor *A* and actor *B*, it is recognised that entrepreneurs may be dependent on multiple actors in their search for resources, e.g. financial institutions, legal institutions, other enterprises (suppliers), family, friends and many others (Chapters 7 and 8). Pfeffer and Salancik (1978) listed ten conditions that affect the extent to which an organisation would comply with demands from other organisations (Table 5.4):

Table 5.4: Ten conditions which affect the extent to which an organisation complies with external demands

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1. The focal organisation is aware of the demands.
 2. The focal organisation obtains some resources from the social actor making the demands.
 3. The resource is a critical or important part of the focal organisation's operation.
 4. The social actor controls the allocation, access, or use of the resource; alternative sources for the resource are not available to the focal organisation.
 5. The focal organisation does not control the allocation, access, or use of other resources critical to the social actor's operation and survival.
 6. The actions or outputs of the focal organisation are visible and can be assessed by the social actor to judge whether the actions comply with its demands.
 7. The focal organisation's satisfaction of the social actor's requests are not in conflict with the satisfaction of demands from other components of the environment with which it is interdependent.
 8. The focal organisation does not control the determination, formulation, or expression of the social actor's demands.
 9. The focal organisation is capable of developing actions or outcomes that will satisfy the external demands.
 10. The focal organisation desires to survive (Pfeffer and Salancik, 1978: 45).
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Source: Pfeffer and Salancik (1978:45).

5.5.2: Institutional entrepreneurship

Interestingly the formation of inter-organisational relationships has also been termed “institutional entrepreneurship” by authors such as Lawrence et al (1999:1) who used the concept to “refer to a purposeful action undertaken by actors in order to structure the institutional contexts in which they work”. They argued that institutional entrepreneurs use collaboration not only for achievement purposes, but also to reposition their organisation within the organisation field. They added that although many discussions of institutional entrepreneurship tend to focus on the activities of powerful actors, smaller, and less dominant organisations can also develop institutional strategies. Examples of institutional entrepreneurship can be illustrated by reference to the many networks of similar organisations e.g. craft networks which form, so as to leverage resources from the enterprise-supporting organisations. The formation of the craft networks is an example of institutional entrepreneurship, as the entrepreneurs involved recognise the value of working as a collective rather than as separate organisations, as there are many more opportunities (e.g. more powerful lobbying to receive supports to participate in tradeshow) which they can glean with the increasing size and power.

5.5.3: The importance of spatial proximity in forming inter-organisational relationships

Alter and Hage (1993) argued that close proximity to an organisation is important for increasing the likelihood of communication and facilitating the exchange of ideas, personnel, information and resources. The degree of spatial proximity may have implications for the establishment of inter-organisational relationships and this is considered in relation to the location and distribution of micro-enterprises and the enterprise-supporting organisations.

5.5.4: The enterprise supporting institutions as agencies?

The enterprise-supporting organisations at the centre of this study are commonly referred to as agencies. Indeed, Lawrence et al (1999:1) noted that this term is “increasingly been recognised as a central problem in neo-institutional theory”. Some studies have used the term agency when referring to enterprise-institutions, e.g. Stern (1992) defined institutions to include all the agencies (public and private), which have an impact on the rural world. This reference to an institution as an agency is significant, as it connotes interaction activities, and is therefore important in the context of this study. Scott (1995) argued that it was very common to assume in the past that organisations were “passive systems” and thus he argued “a sense of agency (individuals acting purposefully) was often missing” (ibid, 1995:xx). This idea of organisations as passive systems cannot be applied to the enterprises and enterprise-supporting organisations in the study, as they depend on each other and on many other external organisations for their sustainability. Therefore the notion of agency in the sense of organisations and their individuals working together is central to our understanding of interaction.

5.6: Justification for providing supports to micro-enterprises

Boyett and Finlay (1995:105) asked the question:

“Is a reliance on government-funded agencies to provide encouragement for new entrepreneurs the most effective method of producing the enterprising atmosphere required to facilitate a local economic recovery?”

In an attempt to answer this question and to justify providing supports to the micro-enterprise sector, a number of arguments will be examined. In the past Conservative Darwinists argued, “social change should occur naturally, rather than being forced by the intervention of social do-gooders” (Aldrich, 1979:32). This laissez-faire approach considered that it was improper to use social agencies to intervene in the social struggle, as the strongest would survive. Bendix (1956:259) explained: “by definition the survival of the fittest was nature’s way of culling the weak from the strong, with those who survive being the fittest”. Therefore “intervention was unnecessary” as it was recognised that “hardships can’t be eradicated by trying to make things easier for anyone” (Aldrich, 1979:32).

To align oneself with the Conservative Darwinist view, would be to argue that in a booming economy there is no need for government assistance of this kind – the free market will operate to assist those who want to start a business, and hence the strongest will survive. However the reality is that it is only businesses that are equipped to operate in a larger market which will survive and flourish. Therefore it is argued that appropriate assistance at the appropriate time is needed and will be of considerable benefit in helping people to create viable businesses that are equipped to deal with market opportunities.

The reform of this laissez-faire paradigm saw that natural selection involved the formation of social institutions to help in changing people's life chances (ibid, 1979). Therefore individuals and organisations could actively engage in pursuing their own interests. This view meant that in effect fitness need not mean simply being the strongest and ultimately, "it was this view that legitimated the evolution of the state into the role of an intervening agent" (ibid, 1979:33).

The State has played an important role in the formulation of Irish economic and rural development policies (see Section 5.7), and effective support structures have been put in place to encourage and help with the creation of micro-enterprises. However Drudy (1995:71) noted that when considering government support it is important to take note that "the nature of the policy environment can be particularly important in determining the extent of production, employment and other benefits generated". Thus the nature of the Irish policy objectives for the support of micro-enterprises, incorporates a variety of aims, including: i) employment creation ii) promotion of entrepreneurship iii) local development and, iv) social inclusion. Therefore the nature of the policy environment can be said to have a very broad focus. Indeed the Industrial Evaluation Unit (1999) argued because micro-enterprise policy includes hard economic interests plus social concerns, it is fair to say that no other policy of this type has to balance such a variety of central issues.

The ESRI (Honohan, 1997) developed a typology for addressing the rationale for investment, of which many categories are related to entrepreneurial activities:

1. Public goods: spending on public goods as it is either not possible or convenient to receive this type of funding from people and/or exclude people from using the good in question, e.g. infrastructure;
2. Corrective subsidies: these are interventions such as grants and subsidies which are directed at job creation;
3. Targeted subsidies: these are designed to facilitate or overcome information barriers and/or to alter behaviour. Examples of this form of funding would include investment in in-company training and research and development;
4. Spending with a redistribution motivation such as in social housing.

Therefore government intervention is especially important for the creation and development of micro-enterprises, as the necessary infrastructure (roads, technology etc.), corrective subsidies (such as the Back to Work Allowance Scheme), targeted subsidies (e.g. support for research and development and training) and spending with a redistribution motivation (improving one's life chances which may encourage and/or help people to consider becoming an entrepreneur) may encourage and support entrepreneurial activities.

Giddens (2000:75) argued that, "a society that doesn't encourage an entrepreneurial culture won't generate the economic energy that comes from the most creative ideas". Although the International Labour Organisation (1999:16) noted that "the argument can be made that stimulating entrepreneurship should be the reserve of pure economic policy with no ambiguity being introduced through incorporating a social agenda", it added, "we live in a society as well as an economy". Therefore the Irish Governments objectives for supporting micro-enterprises prove that they do not simply have an economic focus, i.e. supports offered to encourage employment creation and economic growth, but objectives that encompass social and developmental factors, such as their role in counteracting rural-urban drift, their help in increasing the productivity of people, and their ability to diversify local economies. Indeed Keane (1992:193) has argued that, "the economic opportunity set for many marginal areas is limited to perhaps three possibilities: i) discovering and mobilising new resources ii) creating new uses from existing resources and, iii) making better use of existing resources", and it is recognised that micro-enterprises play a valuable role in this process.

In 1997 the Treaty of Amsterdam placed employment at the centre of Europe's policy agenda, and recommended co-ordinated national employment initiatives under a four-pillar framework: employability, entrepreneurship, adaptability and opportunities. Turok (1997:337) noted Delors reference to the many reasons and importance of providing supports to SMEs in the subsequent White Paper on Growth, Competitiveness and Employment (CEC, 1993):

"SMEs play a crucial role in the link between growth and employment...they provide more than two-thirds of Community employment...they are considered to be the greatest potential job creators....the potential of the internal market will not be fully exploited without the driving-force represented by SMEs. For many SMEs, completion of the single market means a change in the environment in which they operate....The Community must therefore devise a back-up strategy designed to make it easier for businesses, particularly SMEs, to adapt to the new requirements of competitiveness and thus ensure that economic operators are properly mobilised in support of growth, competitiveness and employment" (ibid, 1993:76).

It was recognised also that, not only was it important to provide supports to SMEs for the economic benefits they bring to society, but that the conditions for the realisation of a successful enterprise have changed and are in a constant state of change, and it is therefore argued that the institutions established to provide support to micro-enterprises help entrepreneurs adapt to such changes. Hofmaier (1993), in reference to the changes which have occurred in the climate for enterprise

creation, included the shift from mass production to quality products, the increasing presence of high-tech firms, changes in the labour force structure and the increase in education. Therefore amongst the institutional supports offered are those which help entrepreneurs cope with these changes, e.g. training in I.T., training programmes with some designed specifically for women (e.g. 'Women Entering Business' - WEB), encouragement to establish quality products and services, and advice and assistance in improving one's educational attainments. Such supports are vital for the success of micro-enterprises to adapt to these changes and for the development of the person and the area in question.

5.6.1: Enterprise supports: their role in people development

The enterprise-supporting organisations at the centre of this study have an economic and social focus as they prepare an individual who is hoping to become self-employed according to his/her particular stage of development. Nevertheless the common references to the output value of each organisation, which measures such outputs as numbers of jobs created, number of participants on training courses and otherwise, do not consider all the effects of such support on the individuals within a local area (Moseley et al, 2001).

The establishment of support institutions, in particular the Partnership Companies, has created a method for developing the capacity amongst people to become successful entrepreneurs. The organisations are encountering people who are armed with an idea and through a supportive and facilitating way, they are turning them into entrepreneurs. Their ideas may not necessarily be innovative and may not have the capacity to make large amounts of money but what is important, from a social and personal developmental point of view, is that people are being given the chance to build their individual economic foundations. Therefore the institutional supports available for people wishing to set up micro-enterprises are there to help them identify their lack of skills through a process of co-operation and personal and behavioural development, to develop the capacity to sustain a successful micro-enterprise. They are encouraged to address their problems in a rational manner, thus finding developing strategies to deal with public and private institutions that possess the means to addressing these problems.

Furthermore the rise of localism has had a positive effect of encouraging and supporting regional or locally specific actors to become more positive animators in the local development process. Therefore the establishment of the institutions has encouraged and facilitated nascent and established entrepreneurs, and local animators, to become involved in the development of their local areas. Moreover this has encouraged a certain pride amongst small communities and a sense of ownership of one's resources and problems. This has led to many other interest groups becoming involved in the renewed development of small areas, and the dispersion of institutions and their

differing focuses have ensured that local areas and their individuals are best served according to their individual needs.

5.6.2: Self-employment as an option for the unemployed?

“Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment” (United Nations ‘Declaration of Human Rights’, September 24th, 1948).

Everyone has the right to employment but it is debated whether the unemployed should receive support from government to assist in becoming self-employed. An OECD report (1999) noted, that the main argument cited in research is that public support for those who are unemployed is viewed as discouraging the incentive to work. Consequently a dependency on state-aid will destroy the intention and then the capacity to acquire the skills required for economic independence. Furthermore the report noted that the common assumption is that the modern and high-performance jobs require autonomy and entrepreneurial self-determination and it is precisely these qualities that welfare saps. Moreover Balkenhol (1998:2) argued:

“Self-employment for the unemployed is not uncontroversial. Some argue that it leads to self-exploitation and creates unsustainable businesses; others see it as an instrument of welfare reform, to help reduce public sector expenditure and the burden on social security systems. For some it is the bridge to more and better entrepreneurship, to expand the frontiers of the private sector while to others it only increases the pool of working poor, whose wages are too low to make a decent living and who end up taking on other income-generating activities.”

However Meager and Evans (1998) noted that, although there is evidence of low enterprise survival rates amongst self-employment schemes for the unemployed, it should not be forgotten that one objective of such schemes may be to remove people from a situation of long term unemployment, and that their experience in setting up an enterprise may “impart some valuable skills and human capital and improve the participant’s subsequent employability in the eyes of employers” (ibid, 1998:21). Therefore, whilst the survival rates may be low, the benefits of such schemes should not be seen in a negative light.

Although there are many arguments which do not favour government support of this nature, the figures for the number of unemployed people becoming self-employed in Ireland are positive. It has been estimated that between 1991-1997, the number of unemployed people entering self-employment increased in absolute numbers, from 1,300 in 1991/2 to 1,750 in 1995/6 and to 2,800 in 1996/7” (Sullivan, 1998). Sullivan (1998) added that these patterns coincided with the establishment of the programmes of public support which enabled unemployed people to establish a business. Therefore it can only be justified that there are supports in place to encourage and assist the unemployed to consider self-employment as an option, to assist in re-entering the labour force, and becoming economically independent.

Arguments against and for government intervention in providing supports which favour and help the creation and development of entrepreneurship have been presented. Regardless of whether one chooses to approve or disapprove of the supports in place, there is clearly a significant number of Irish people availing of and benefiting from these supports. An OECD (1998) report estimated that 12% of the Irish labour force participated in some form of active labour market policy in 1995. When this figure is related to Gross Domestic Product (GDP), it was estimated that Ireland's expenditure on such policies was equal to 1.7 % of GDP. In comparison with other OECD countries in 1996, Ireland's expenditure was behind only that of Denmark, Finland and Sweden. The reasons for this level of support are presented in the following section, when an overview of economic policy in Ireland (Section 5.7) is presented, and the 'partnership' approach to development is considered (Section 5.7.2).

5.7: Micro-enterprise policy

Although Stevenson and Lundström (2002b:17) noted, "historically, entrepreneurship was rarely a stated policy objective [and] at best, it was a by-product of the economic policy development process", Nolon (2001) reported that the scope, number and growth of self-employment, micro-enterprise and entrepreneurship support programmes have increased across OECD countries. Nonetheless, even though many countries have introduced and developed their self-employment, micro-enterprise and entrepreneurship support programmes, entrepreneurship policy is an area of economic policy that is still not well developed (ibid, 2002). Verheul et al (2002) noted five types of government policy intervention which are thought to influence entrepreneurial activity. These were summarised by Stevenson and Lundström (2002b) to include:

- **Type 1:** *The demand side of entrepreneurship:* this refers to a government's role in influencing the type, number and accessibility of entrepreneurial opportunities;
- **Type 2:** *The supply side of entrepreneurship:* this refers to government policy which relates to immigration, regional development and fiscal policy in relation to families with children, which would include family allowances or child benefits;
- **Type 3:** *The availability of resources and knowledge:* this refers to a government's role in increasing the levels of financial and information resources, together with the inclusion of entrepreneurship education in schools;
- **Type 4:** *Shaping entrepreneurial values in the culture:* this refers to the role of government, education and the media in influencing the entrepreneurial culture;
- **Type 5:** *Altering the risk-reward profile of entrepreneurship:* this refers to government policy in relation to taxation, labour market legislation and bankruptcy policy, which can influence the risk-reward profile of the entrepreneur.

The above classification shows the different types of government policy and highlights the many different influences which a government can have, on both the levels and culture for entrepreneurship. In the context of this study, Michaelson's (1979) definition of policy is used:

"Policy is the determination of what institutions are best suited to make what decisions, and how to chose, monitor and influence those institutions. Policy determines what kinds of results are to be achieved and what actors are suited to achieve them. Policy implementation requires choosing the actors and influencing their performance" (cited in O'Cinnéide & Cuddy, 1992:186).

5.7.1: Micro-enterprise policy in Ireland

The main responsibility for small business lies with the Department of Enterprise, Trade and Employment. The Irish Government's objectives for supporting entrepreneurship include employment creation, regional development and the promotion of entrepreneurship. Legislation for industrial policy in Ireland is contained in the following Acts: The Industrial Act of 1986, 1993 and 1995, and the Industrial Development Act of 1998 (Fitzpatrick and Associates, 2001). Policy supports for micro-enterprise have increased and developed over recent years in recognition of the significance of this sector to the economy and society. However, in the past, policy supports were more focused on larger enterprises, and in particular on foreign direct investment, and, consequently, the Irish economy became characterised by a strong foreign-owned enterprise base, most notably now in pharmaceuticals, electronics and healthcare.

Obviously the general political and economic situations affect the environment for micro-enterprise development. Major changes in the twentieth century included Independence from the United Kingdom in 1922, the adoption of strong protectionist policies from the early 1930s to about 1960, and the subsequent export orientation and movement towards free trade, culminating in Ireland's accession to what is now the European Union in 1973. These matters are dealt with in many sources (e.g. Drudy, 1995; Kennedy, 1995), and discussion of them is beyond the scope of this thesis. Varying efforts were made to promote industrial development but none of them were aimed specifically at indigenous entrepreneurship or at micro-enterprises until the 1980s. Thus the focus in this section is on developments in policy since the 1980s.

- The 1980s

It was estimated that in 1981 to 1986 growth in Gross National Product averaged less than 1% per annum (IEU, 1999). High rates of unemployment (estimated at 17.8% in 1986) left people economically dependent on government supports and further away from active participation in the labour market. The additional high rates of emigration resulted in the loss of the most able, educated and skilled people to other countries, and consequently resulted in the loss of many potential or actual Irish entrepreneurs. There was little in the way of incentives and/or supports for

those aspiring to become entrepreneurs. Consequently, this decade saw the introduction of many direct policies in support of small business creation and development.

In response to the economic conditions which prevailed at that time, and concerns about the nature of the foreign-owned branch plant industrial sector the Telesis Report was commissioned by NESC (1982). The report placed considerable emphasis on the creation and development of indigenous industry. It highlighted a number of considerations in relation to manufacturing in Ireland, such as the weak nature of indigenous industry and the over dependence on FDI (Kennedy, 1995). The report recommended that a number of large indigenous industries should export on an international market. Consequently, the recommendations included an increased selectivity with regard to the types of products and enterprises assisted (ibid, 1995).

Although the Telesis Report recognised the need for supports for indigenous Irish industry, less dependence on external investment, more export-orientated Irish industries and more emphasis on marketing and technology, Kennedy (1995:59) noted that “the Telesis prescription represented a signpost to the desired destination rather than an itinerary of how to get there”. Nonetheless, in response to this report, the Government requested the Industrial Development Authority to develop a variety of programmes which would facilitate and improve the competitiveness of indigenous enterprises. Consequently, there were two programmes established, namely the Company Development Programme and the National Linkage Programme.

The Company Development Programme was introduced on a pilot basis in 1984. The main focus of this programme was on indigenous enterprises, and its main objective was to help with company planning, as opposed to individual once-off investments. The National Linkage Programme (NLP), introduced in 1985, sought to develop and strengthen an indigenous base of sub-supply firms with the existing overseas enterprises in Ireland (ibid, 1995). The main objective of this programme was to establish linkages between foreign owned companies in Ireland and local indigenous suppliers. This programme was particularly successful, Enterprise Ireland estimating that by 1997 there were 250 foreign affiliates involved in the linkage programme.

By 1984 the White Paper on Industrial Policy (Government of Ireland, 1984) also proposed increased selectivity on the allocation of State funds, to favour those firms with a competitive export orientated base and those with growth potential (Industrial Evaluation Unit, 1999). Furthermore, it called for more focused and strengthened linkages between foreign and indigenous industries in Ireland, in recognition of the recommendations of the Telesis Report. Therefore the main objectives of the White Paper included the switch from providing direct capital assistance to assisting with equity financing, with more emphasis on improving the technological base, export orientation and management of Irish enterprises.

By 1986, small firms were directly assisted under the Industrial Development Act. This Act was introduced as an alternative to fixed asset grants and as a means of increasing employment growth potential in small enterprises. Management development grants were also introduced in an effort to address the identified weakness in the management structures of small firms (ibid, 1999). All things considered, the policy decisions of the 1980s were becoming quite significant for the small business sector. They included, amongst the many recommendations published, more direct improvements for individual entrepreneurs, such as improving one's ability to borrow capital, decreasing interests rates and a devalued punt, and together these improvements contributed to making the environment more conducive to enterprise creation.

However, despite the preceding recommendations and policy support to the SME sector, in 1987 the Task Force Review of the Small Industry Programme (Department of Industry and Commerce, 1997) highlighted that few small firms were experiencing significant employment growth. It also noted evidence of duplication of state supports to the small firms sector and the need for reduction in the number of agencies and the services they provided. Therefore in 1988 there were a number of policy changes introduced in direct support of small enterprises in Ireland which the IEU (1999:22) termed a 'two-tiered system of supports'. They included: i) employment grants of £5000 per job created and management grants offered to start-ups and firms which showed potential to create employment; ii) a variety of grants including employment, capital, product development and management were made available to those companies with scope to create more than 15 jobs; iii) a special range of supports were made available in return for an equity share for the State for those firms with employment potential greater than 50 people (ibid, 1999). Overall the 1980s was focusing more on indigenous industries, identifying difficulties with regard to management, marketing and technology, assisting international services and getting more value for government financial assistance (Kennedy, 1995).

In response to the state of the Irish economy at this time, the first social partnership agreement was introduced in 1987. It was titled The Programme for National Recovery (1987-1990) (Department of the Taoiseach, 1987) and, as the name suggests, it sought to improve the economic conditions which prevailed. The partnership agreement focused on wage agreements and government reform of income tax in favour of employees, but it was also a significant factor in providing supports to micro-entrepreneurs. The industrial policy therefore shifted attention towards SME policy and seeking improvements for the farming sector.

- The 1990s and after

In 1990 the Review of Industrial Performance recommended "more intensive initial project appraisal, and extension of loan guarantees and interest subsidies to high potential small

businesses” (Industrial Evaluation Unit, 1999:1). The Report highlighted a number of issues, most notably that the Small Business Programme was having little impact on the provision of seed bed for Irish enterprises (est. only 1% of firms grew to more than 50 employees). It further noted that there was deadweight, displacement and too much emphasis on start-ups.

The Culliton Report titled ‘A Time for Change: Industrial Policy for the 1990s’ (Culliton et al, 1992), went far beyond the arguments for specific industry supports and called for a more holistic approach to the provision of enterprise supports, which included education and the development of human capital. This Report identified the broad scope of enterprise policy and industrial development, i.e. a policy that “goes well beyond industrial policy as traditionally conceived” (Kennedy, 1995:60).

The Culliton Report called for many changes some of which had been noted already in the Telesis Report. The changes included a reform of the tax system and the improvement of infrastructure, with particular reference to transport, communications and energy. It highlighted the need to reform education and to introduce and strengthen vocational and technical skills both at secondary and third level. The provision and improvement of training for industry, particularly in the area of science and technology, were also noted. More importantly, the report recommended institutional support for industrial development. The methods and main recommendations of the report to achieve these reforms were summarised by Kennedy (1995:61) to include:

- A further squeezing of grant aid for foreign industry;
- A decisive switch from grants to equity in supporting indigenous industry;
- A greater focus on industry clusters;
- A clear mandate, and access to capital, for commercial state enterprises.

Other factors which were achieved at this time included the reduction of personal and corporate tax rates, the control of public finances, a reduction in the inflation rate, exchange rate stability and lower interest rates as a result of Ireland’s membership of the EMU, and deregulation of a number of sectors (Fitzpatrick and Associates, 2001).

The Task Force on Small Business (Government of Ireland, 1994) recommended that the creation of small business should be given the ultimate priority in government policy, placing small business creation and development at the centre of job creation and economic development. It proposed a range of mainly financial measures to improve the economic environment for small business, and in 1993, the CEBs were established to specifically support the micro-enterprise sector.

The Task Force (Government of Ireland, 1994) was established to investigate the small business sector in Ireland. It included four main recommendations to support small business development and encourage future growth in this sector in Ireland: i) raising money ii) rewarding risk iii) reducing administrative burdens iv) providing help and, v) a new deal for small business.

The Task Force recommendations included the provision of information and advice in the form of a mentor programme, education and training for SMEs. Furthermore, a Small Business Division was established in the Department of Enterprise Trade and Employment to advise the Minister for Enterprise on small business and contribute to small business legislation. It also administered the newly established CEB network.

The Operational Programme for Industrial Development (1994-1999) (Government of Ireland, 1995b), which formed part of the Community Support Framework (CSF), was the main programme for enterprise support at this time. The principal aims of the programme highlighted the focus on enterprise supports and included: i) to upgrade and improve the capabilities and capacity of the indigenous sector and personnel ii) to attract more foreign direct investment and develop the non-indigenous sector in Ireland iii) to improve the marketing capabilities of enterprises and, iv) to enhance research and technological development. However it was one other Operational Programme, the Operational Programme for Local Urban and Rural Development [OPLURD] (Government of Ireland, 1995c), which had a more significant influence on the micro-enterprise sector, as it was this Operational Programme which included the establishment of the main micro-enterprise-supporting organisations.

It is commonly noted that there is a plethora of available organisations which provide supports to the micro-enterprise sector. These enterprise-supporting organisations were established mainly in the 1990s under the OPLURD, and the Industrial Development Act of 1996 (Government of Ireland, 1995a) ensured the permanent establishment of the CEBs. The most significant institutions for providing micro-enterprise supports included the CEBs, LEADER Companies and the Partnership Companies. The supports which they provided were mainly in the form of capital assistance, and soft supports, which in most cases involved training and business advice.

There was remarkable economic growth in Ireland between 1993 and 2001, to the extent that the annual real growth rate of the economy over this period was more than double the average recorded over the previous three decades, 8% as compared with 3.5% for the previous decades. As a result, Irish people now enjoy a standard of living comparable to many developed countries as Gross Domestic Product has risen to the European average (Clinch et al, 2002).

“Just yesterday, it seems, Ireland was one of Europe’s poorest countries. Today it is about as prosperous as the European average, and getting richer all the time” (The Economist, May 17, 1997:15, as cited in Murphy, 2000:1).

It is predicted that Ireland could have a Gross National Product per head of 8% above the EU average in 2010, if it were not for its infrastructural deficit. Consequently, the standard of living may still be only at the EU average in 2010 (Duffy et al, 2001). The recent downturn in the economy renders forecasting hazardous.

The labour market changes included an increase of 45% in the numbers of people at work over the twelve years to 2000 (1.8 million from 1.3 million in 1987), representing an annual average increase of over 3% (ibid, 2002). Furthermore, the unemployment situation has improved considerably, so that by 2000 it was estimated at 3.9% (Clinch et al, 2002). Other demographic estimates demonstrate that over the decade of the 1990s the average age of the population increased by 2 years (from 32.5 to 34.4) and will grow by a further 1.5 years (to 36) over the current decade (Duffy et al, 2001). Moreover, Duffy et al (2001) argued that female labour force participation would be very high by 2010, roughly comparable with the rest of the EU members in Northern Europe. It is also true to say, that Ireland has now a more multi-cultural environment resulting from an increase in immigration rates, with the highest net immigration rate in the EU in 2001. The direct and indirect effects of the above changes in policies in the 1980s and 1990s together with the removal of a number of barriers to entry, have resulted in a more positive entrepreneurial climate in Ireland.

5.7.2: EU policy to support micro-enterprises

As a member of the EU, Ireland is influenced directly by its policy for SMEs. EU policy in support of this sector, has expanded in scope and significance over the past number of years. The overall objective of the EU is to make an important economic region capable of competing with other large economic blocs, such as the United States and Japan. Consequently, developing entrepreneurship is one of four pillars listed in the EU employment guidelines, and the EU has committed structural funding estimated at EURO 16 billion for the period 2000 to 2006.

There are many factors which have influenced SME policy across Europe, including the Maastricht Treaty, which paved the way for the introduction of the EMU, European enlargement, such as the membership of Austria, Finland and Sweden in 1993, and the next round of enlargement which is due in 2004, together with the Uruguay Round GATT agreement in 1994 and current discussions in the World Trade Organisation. The European Charter for Small Enterprises (CEC, 2001b), which was approved by EU leaders at the Feira European Council in 2000, approved many actions to encourage and support the creation and development of small enterprises. The priority objectives included, promoting a positive entrepreneurial culture, improving the environment for enterprise creation, enhancing competitiveness, promoting innovation, improving employment opportunities, encouraging export activities, and integrating entrepreneurial policies with other EU policies. More specifically, improvements to the business environments included cheaper and faster start-up for

enterprises, improved regulation and legislation for small business, better taxation and financial conditions, and supporting the technological capacity of European enterprises.

5.8: Micro-enterprise institutions

The main institutions which provide supports to micro-enterprises are the County Enterprise Boards, Partnership Companies and LEADER Companies which offer many supports in favour of micro-enterprise creation and development. The origins and development of these initiatives is examined in the following section.

5.8.1: The Community Support Framework

The Community Support Framework (CSF) was an agreement made by the Irish Government together with the European Commission, and it was essentially the framework for the distribution of the European Structural Funds (SF) in Ireland. The development of small business was one of the priorities of the European Structural Funds, so as to enable and support the Irish economy to compete successfully and unaided in the Single European Market (SEM) (McCarthy, 2001). The four priorities under the CSF were:

1. Priority No 1: The productive sector
2. Priority No 2: Economic infrastructure
3. Priority No 3: Human resources
4. Priority No 4: Local urban and rural development (Fitzpatrick and Associates, 1997).

The four priorities were embedded in nine sectoral or thematic operational programmes (OPs) as shown in Table 5.5. The Operational Programmes were financed by a combination of Irish exchequer and EU Structural Funds: European Regional Development Fund (ERDF), the European Social Fund (ESF), and the European Agricultural Guidance and Guarantee Fund (EAGGF). Although the Department of Tourism, Sport and Recreation was responsible for the overall operation and administration of the programmes at that time, each of the institutions involved in this study was under the control of a different state department: the Department of Enterprise, Trade and Employment (CEBs), Department of Community, Social and Family Affairs (Partnership Companies) and the Department of Agriculture, Food and Rural Development (LEADER).

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Table 5.5: The CSF Priorities, Operational Programmes and Lead Departments

Priority	Operational Programme	Lead Department
1. The productive sector	– Industrial Development	– Department of Enterprise and Employment
	– Agriculture, Rural Development and Forestry	– Department of Agriculture, Food and Forestry
	– Tourism	– Department of Defence and the Marine – Department of Tourism and Trade
2. Economic Infrastructure	– Transport	– Department of Transport, Energy and Communications
	– Economic Infrastructure	– Department of Transport, Energy and Communications
	– Environmental Services	– Department of the Environment
3. Human Resources	– Development of Human Resources	– Department of Enterprise and Employment
4. Local Urban and Rural Development	– Local Urban and Rural Development	– Department of the Taoiseach

Source: Fitzpatrick and Associates (1997:1)

The Operational Programme for Local Urban and Rural Development (Government of Ireland, 1995c) was priority four in the Community Support Framework (CSF) and it is of particular importance to this study, it was under this Operational Programme that the two agencies, the County Enterprise Boards (CEBs) and the Area Based Partnership Companies (ABPCs), were funded. The Operational Programme for Local Urban and Rural Development was not only designed to achieve economic and social development of local areas, but also to enable communities to become involved in the development process. Although the ABPCs and the CEBs each had a specific focus: CEBs (micro-enterprise creation and development) and ABPCs (social inclusion), they were required to collaborate and co-ordinate their activities to achieve this aim.

The Operational Programme for Local Urban and Rural Development contained three main sub-programmes, two of which were of direct relevance to this study:

1. Sub programme one – The Local Enterprise Programme: Under this programme the CEBs were funded. The aim was to provide financial and technical assistance for employment creation in the micro-sector. This was “launched by the Government in 1993, two years before EU funding permitted it to be greatly increased in scale” (Moseley et al, 2001:178).
2. Sub-programme two - Integrated Local Development of Designated Disadvantaged and Other Areas: The aim of this programme was to counter disadvantage and unemployment

in local communities. The initiative included under this programme to support enterprise activity included the Partnership Companies (38) in designated disadvantaged areas and Community Groups (33) in non-designated areas.

There were also nine community initiatives in operation during the 1994-1999 period and it was under these initiatives that the LEADER programme was supported (Table 5.6).

Table 5.6: The Community Initiatives and their respective Lead Departments

Community Initiatives	Lead Department
◆ ADAPT	◆ Dept. of Enterprise and Employment
◆ Employment	◆ Dept. of Enterprise and Employment
◆ Interreg (cross-border and maritime)	◆ Dept. of Finance
◆ LEADER	◆ Dept. of Agriculture, Food and Forestry
◆ Peace and Reconciliation	◆ Dept. of Finance
◆ Pesca	◆ Dept. of Defence and the Marine
◆ Retex	◆ Dept. of Enterprise and Employment
◆ SME	◆ Dept. of Enterprise and Employment
◆ Urban	◆ Dept. of the Taoiseach

Source: Fitzpatrick and Associates (1997:2)

It is worth considering that over the lifetime of the Operational Programme for Local Urban and Rural Development (1994 to 1999) the Irish economy preformed very well – indeed it went from a situation of mass unemployment to one of labour shortage. It has been estimated that GNP increased at an annual average rate of some 7.5% over the 1994 to 1999 CSF programming period. The unemployment rate (ILO basis) decreased from roughly 14.7% of the labour force in April 1994 to 5.7% for the March to May quarter, 1999, and the long-term unemployment rate fell from 9% to 2.5% over the same period (CSF Evaluation Unit, 1999).

- The Structural Funds and enterprise development

Turok (1997) noted that measures to promote small and medium enterprises have featured in the Structural Funds for at least a decade. The 1984 regulations for the ERDF stated that such funding was provided to encourage “exploitation of indigenous potential by stimulating internally generated regional development, mainly through physical infrastructure improvements but also by assisting primarily small and medium-sized undertakings in industry, craft industries and tourism” (CEC, 1984: chapter II). Again these supports were offered at a time of increasing international recognition of the importance of small enterprises for job creation. Nonetheless supports were restricted and it was noted that business development measures were not permitted to get more than 10% of the funds allocated to a region (Turok, 1997). However the 1988 Reform of the Structural Funds gave more priority to directly productive investment and SME development, and the 10% limit on business support was removed (CEC, 1989). The individual Operational Programmes were thus developed and with them the emphasis on partnership, co-operation and co-ordination.

5.8.2: The 'partnership' approach to development

Moseley et al (2001:176) noted that partnerships are “generally viewed as reflecting the rise of what is called the new localism whereby local actors become involved in designing and implementing solutions to local problems”. The partnership approach was adopted by the Irish Government together with the social partners when it was recognised that:

“Economic growth alone would not improve the living conditions and prosperity of the most vulnerable groups, and that existing centralised welfare programmes could not accomplish what growth left undone. Social partnership between business and labour at the national level could not guarantee to extend the benefits of eventual prosperity to the long-term unemployed and other groups suffering from economic distress. Therefore they were disposed to look at novel, local forms of public-private partnership as the institutional vehicle for escaping the blockages at the centre” (OECD, 1996:1).

The need for a new approach to development to tackle the problems experienced in the 1980s (high inflation and subsequent pay claims by workers, increasing business costs, competition, unemployment) was therefore clear and thus the partnership approach was adopted. The first step in initiating this process was the coming together of the social partners - employers, trade unions, sectional and community interests in partnership and what ensued was the National Agreement: The Programme for National Recovery (PNR) – 1987-1990. Subsequent agreements followed in a series of three-year national agreements:

1. The Programme for National Recovery (PNR) – 1987-1990;
2. The Programme for Economic and Social Progress (PESP) 1990-1993;
3. The Programme for Competitiveness and Work (PCW) 1994-1996;
4. The 'Partnership 2000' for Inclusion, Employment and Competitiveness 1997-2000;
5. The Programme for Prosperity and Fairness (PPF) 2000.

An OECD (2000:3) report noted that partnerships were established throughout OECD countries “to tackle issues of economic development, employment, social cohesion and the quality of life”. Partnership was “a concept to promote integration both vertically (between different tiers of Government – EU, national, regional, local and grass roots) and horizontally (between different spheres of society – public, private, voluntary and civil” (Bennington and Geddes, 2001:2). Therefore the operation and support of the partnership concept was of particular significance to a centralised state such as Ireland. Incidentally “Ireland has one of the strongest records in Europe of using local partnerships to address the challenges of rural development” (Moseley, et al, 2001:176), and the three partnerships initiatives launched in the 1990s, were notably the LEADER programme, the CEBs and the Partnership Companies. Furthermore, it was acknowledged in a OECD (2000:4) report that “Ireland provides good illustrations of such initiatives, which have served as a model in several European countries”.

In the context of this study, the partnership arrangements represented an organisational structure which involved the sharing of power, ideas and resources amongst different sectors in society for the achievement of social inclusion, job creation and entrepreneurial growth. Therefore the partnership arrangement can be compared with earlier definitions of organisations (Section 5.4). Crooks (1998:18) noted the main characteristics and potential advantages of the partnership approach:

1. It starts with the needs of the people in a particular area;
2. It identifies ways of adding value and complementing what is currently provided;
3. It identifies the gaps or omissions in current provision and suggests how they might be met;
4. It starts locally and is owned locally;
5. It varies from place to place depending on identified needs.

The adoption of the partnership approach to development was of particular importance to the creation and development of entrepreneurship, particularly amongst the disadvantaged, and an ILO report (1998:16) noted, that it was a “political imperative of that national partnership that we allow for measures to support the weaker in society to access entrepreneurship”. In the context of this study, the partnership arrangement is examined as, an institutional vehicle for the creation and development of entrepreneurship. The Partnership 2000 national programme specifically endorsed the achievement of enterprise partnership and a NESC (1996) report outlined a number of objectives for enterprise partnership:

1. To enhance the prosperity and success of enterprise;
2. To create the basis for discussion of major decisions affecting the organisations’ future;
3. To engage all stakeholders’ ideas, abilities and commitment;
4. To enhance the quality of the work environment.

The above characteristics and advantages of adopting a partnership approach to development bring to light the holistic nature of the partnership structure, as it not only embraces economic development, but also includes enterprise creation and social inclusion. In light of the worrying economic and social conditions mentioned in the previous section – high unemployment, social disadvantage, out-migration and rural decline - the partnership approach was therefore a much needed and innovative approach to development.

The partnership approach should also be considered in light of the earlier examination of inter-organisational relationships (Chapter 4), as the approach represents the formation of inter-organisational relationships amongst the different players involved in the partnership process. Inter-organisational relationships are therefore achieved through collaboration amongst the different players, and co-ordination of activities, ideas and resources with regard to achieving common

goals. The establishment of trans-national inter-organisational relationships has also been achieved by the placing of employment at the centre of Europe's policy agenda as enshrined by The Treaty of Amsterdam in 1997. The partnership approach therefore represents an innovative and successful institutional vehicle for the creation of entrepreneurial activities. The formation of inter-organisational relationships by adopting the partnership approach can be considered in the following section when the three main partnership initiatives of the 1990s are examined.

5.9: The County Enterprise Boards (CEBs)

The Irish Government established a network of 35 CEBs in 1993. They arose from a business grant support scheme in operation in ten counties in western Ireland and one which was eventually expanded to all counties in Ireland in 1993. Formal provision for the establishment of the CEBs was made in the Industrial Development Act of 1995. Each CEB was given responsibility for a specific geographical area, which represented their individual local authority administrative structures. Their aim, as set out by the Department of Enterprise, Trade and Employment (1996) (Local Enterprise Section), was to:

“Promote job generation by developing indigenous potential and stimulating economic activity, primarily through the provision of financial and technical support for viable small enterprises”.

Therefore the CEBs were the primary potential source of grant aid and soft supports to the micro-enterprise category. The CEBs were established under a company ltd. structure and were managed by a Board which represented a partnership of multi-sectoral interests, including voluntary groups, community groups, local business people, the social partners, state agencies and the local authority officials. The inclusion of a local authority official on each Board raised many criticisms most notably from an OECD Report (1999:8) which argued, “the CEBs are an attempt to attach the motor power of co-ordinated local initiatives to the machinery of both local government and national administration”. Nonetheless the CEB structure represented a successful and innovative partnership approach to achieving the creation and development of micro-enterprise activities. The CEBs management structure also consisted of an evaluation committee which was responsible for evaluating the projects and business plans presented to the CEBs by project promoters. The composition of the evaluation committees was also mixed and usually included local business people and bank officials.

The CEBs were funded under sub-programme one of the Operational Programme for Local Urban and Rural Development (Government of Ireland, 1995c) and the current National Development Plan 2000 to 2006. Therefore their sustainability is totally dependent on EU/Exchequer funding. They receive funding annually and the amount they each receive is based on their annual output and an assessment of the three year County Strategy Plans.

The CEBs are obliged to enter into a contractual agreement with the Department of Enterprise and Employment, and under this agreement they are required to develop a three-year County Strategy

Plan stating their proposed activities, targets, outcomes and potential development of their area. The Boards, in formulating their plans for their counties, have certain key objectives common to all and summarised by the ILO (1999:29):

1. Area socio economic profile;
2. Audit of existing support mechanisms in the area;
3. SWOT analysis;
4. Identification of objectives and strategy;
5. Implementation of proposals;
6. Action plan;
7. Staffing arrangements;
8. Monitoring and evaluation.

The methods for achieving these objectives were incorporated in the CEBs activities which include:

1. Identification and development of local resources;
2. Promoting an enterprise culture;
3. Providing supports in the form of feasibility studies, employment grants and capital grants (to manufacturing businesses and in the service sector those businesses with export potential – excluding professional services);
4. The provision of soft supports in the form of training programmes, mentor assistance, management development programmes, business information and advice, and information about other and/or alternative sources of business support. The soft supports provided were open to the general public.

The criteria under which capital assistance may be obtained from the CEBs includes:

1. Capital grants of up to 50% of start-up costs or £50,000 [63,487 euro] (whichever is lesser);
2. Feasibility studies or for the preparation of a business plan - up to 75% with a maximum limit of £5,000 [6,349 euro];
3. Employment grants providing a maximum of £5,000 [6,349 euro] per each job created.

Although the most common evaluations of such initiatives refer to their output value in the form of the numbers of clients availing of their services, the number of jobs created and/or participants on training courses, it is worth considering that an OECD report (1993) stated that evaluations of such initiatives are likely to remain partial and incomplete. Nonetheless various results, mostly in the form of output values, are presented for each initiative in turn.

In 1999 it was noted that the CEBs were expected to create 5,000 jobs, however they far exceeded this target by creating 13,000 jobs (ILO, 1999:23). The success of the CEBs has continued, as more subsequent figures revealed that by the year 2000 the 36 established CEBs had approved a total of 13,934 projects, 34.7% of which were located in the BMW Objective 1 region of Ireland. In addition it was estimated that by 2000 the CEBs through their assistance of new enterprises and expansions resulted in the creation of 21,537 full-time jobs and 4,795 part-time jobs (Commins and McDonagh, 2002). Nonetheless an ILO report (1999:23) noted some disappointing results following a review of the CEBs activities under the following four measures:

1. M1 – Preparation of County Enterprise Plans (promotion of an enterprise culture);
2. M2 – Provision of Soft Supports (information, advice, mentoring);
3. M3 – Financial Aid;
4. M4 – Management Development Supports.

The review found that under M1 and M3 the CEBs far exceeded their levels of support, whilst in M2 and M4 they had fallen considerably short of their targets (ibid, 1999:23). It may be suggested, that as the CEBs were so successful in assisting many more project promoters than initially expected, the necessary time and resources committed to M2 and M4 may have been compromised. In addition, the ILO (1999) reported that the CEBs were “less effective in outreach to the unemployed”, although it was recognised that they had a much “wider remit” which was “not solely focussed on servicing the unemployed or indeed start-ups” (ibid, 1999:4).

In order to achieve more cooperation with other agencies, the report recommended that CEBs should have access to a development fund specifically targeted at the “working capital and development needs of start-ups” (ibid, 1999:5). This fund might allow for more resources and time devoted to the development stage of creating and developing a business idea and may therefore have implications for the sustainability of the enterprises created. Interestingly the report also argued that there should exist a revolving loan fund for start-ups and development funds, instead of the grant structure in place (ibid, 1999:4). However the implications of a revolving loan fund would mean less working capital for the micro-entrepreneurs, as the worth of the financial supports received is considered to be very valuable to the achievement of their enterprise start-up and/or development.

5.10: The Partnership Companies

There were 12 Partnership Companies established under the 1991 to 1994 Programme for Economic and Social Progress (PESP) to deal with problems of social exclusion and long-term unemployment. The Partnership Companies were termed Area-Based Partnership Companies (ABPCs) in the sense that they are involved in local communities and use an area-based approach in tackling problems associated with social exclusion, whilst adding value to the local resources in

their areas. The objectives of the Partnership Companies as identified by the ADM Ltd. (1994:8) included:

“To accelerate local economic development, and thereby increase employment, and to tackle exclusion and marginalisation resulting from the long term unemployment, poor educational attainment, poverty and demographic dependency”.

Although the Partnership Companies have a very broad focus, it is part of their remit to support enterprise creation and development (OECD, 1999). Therefore they are actively involved in “helping to integrate efforts to improve the competitiveness of firms with efforts to increase the employability of residents in the local community” (ibid, 1999:6). The other activities of the Partnership Companies include:

1. Education and training services;
2. Community development;
3. Services for unemployed people;
4. Enterprise services;
5. Amenity and environment projects.

Upon their establishment they were funded by a combination of an EU global grant and exchequer funding. Subsequently, this programme was greatly expanded under the Operational Programme for Local and Urban and Rural Development (1994-1999) sub-programme Integrated Development of Designated Disadvantaged Areas and Other Areas (1994-1999), and in 1995 the numbers of Partnership Companies was expanded to 38 in total.

Area Development Management Ltd. (ADM) is the independent intermediary company established by the Irish Government together with the EU in 1992 to manage the Partnership Companies (ADM, 1997). The functions of the ADM are to appraise and evaluate local development plans, allocate funding and monitor the expenditure and performance of the Partnership Companies. The amount of funding granted to each Partnership Company is dependent on the size of the disadvantaged population in their area, the quality of their local development plan, the capacity of the Partnership Company and their resource allocation (ILO, 1999).

The individual Partnership Companies were in-turn established as limited companies subject to the Companies Act (1991), therefore they are also required to have a board of directors. The OECD (1999) noted that in line with the partnership arrangement, Area-Based Partnership Companies would have a Board of 18 members, drawn in equal proportions from the statutory agencies, the social partners and the community sector. They are also required to have an elected official from the local authority. It is worth including that the members of the Board under the Companies Act, have the “primary responsibility to the partnership or company they direct, not the organisations that nominated them” (ibid, 1999:2). In this respect, therefore “the partnerships are engaging in a

kind of participatory reform of established institutions that bypasses most formal democratic procedures” (ibid, 1999:2).

In 1993 there were two programmes administered by the Partnership Companies to support the entry of the long-term unemployed into self-employment. These were the Area Allowance Enterprise Scheme (AAES) and the Back to Work Allowance Scheme (BTWAS). The AAES operated in areas which had ABPCs, and offered one year of income support, equivalent to 100% of the participant’s welfare income. These supports decreased annually at a rate of 75% in the first year, 50% in the second year and 25% in the third year. In 1998 the decision was made to merge the two programmes into one, and this became known as the BTWAS (ADM, 1999a). In 2001 the Area Allowance Enterprise Scheme was re-titled the Back to Work Enterprise Allowance Scheme (BTWEAS) and this scheme was provided to those who wished to become self-employed. This scheme provided four years of support at a rate of 100% of social welfare payment in the first year, 75% in the second year, 50% in the third year and 25% in the final year.

The Partnership Companies target group for enterprise creation and development are those aged over 23 years who are long term unemployed and/or those who are experiencing social exclusion and need support in order to re-enter the labour market.

The specific enterprise supports provided include: business and financial advisory services, pre-enterprise training, bookkeeping and financial training, mentoring, enterprise networks, secretarial support services, legal advice and training in sales and marketing (ADM, 1999b; ADM, 1999c; ILO, 1999), however other services are provided at the discretion of the individual Partnership Company. The Partnership Companies are also required to refer their clients to other enterprise-supporting and financial institutions.

It has been noted that in the 1980s, when most of the social policy measures were constructed, the economic and socio-demographic situation was quite different to the 1990s, in that there was rampant unemployment in Ireland (Section 5.7). Therefore the Partnership Companies are no longer operating within a large pool of available unemployed people, and as such are dealing more with those who are perhaps not emotionally or socially attuned to setting up business. The distinction therefore between the soft unemployed and the unemployable is quite large and the latter may require more focused and more extensive assistance to prevent isolation and promote their integration in society. Nonetheless it is argued that the Partnership Companies are the most effective institution in providing supports to the socially excluded and/or long-term unemployed who wish to become self-employed. The results from the activities of the Partnership Companies so far have been very promising. Amongst which the Partnership Companies have been noted as less daunting for would-be entrepreneurs, than other established institutions such as the County

Enterprise Boards. The OECD (1999:10) summarised earlier successes of the Partnership Companies:

“The final evaluation of the EU Global Grant, which brings together data from the original 12 partnerships and a number of other local development groups funded through the same grant, demonstrates that many more enterprises were assisted and unemployed people trained than had been projected. It was originally foreseen that up to 300 enterprises could be assisted and up to 400 people given business skills/entrepreneurship training. In fact, the numbers were 1800 and 1600 respectively. The most impressive figures are for training/education, including employability training, for the unemployed. Some 800 persons had been expected to participate in programmes and over 7000 actually did, of whom over 80 per cent were unemployed”.

Moreover Sullivan (1998) stated that in 1998, these Partnership Company programmes had a combined participation of 15,600 people, which accounted for 12% of the registered long-term unemployed. Furthermore by the end of 1998 over 13,000 had been helped by the Partnership Companies to set up their own businesses. It is also known that those who participated in these enterprise programmes have a higher rate of progression to the post-programme stage than most other labour market programmes for the long term unemployed (ILO, 1999). Therefore the ILO (1999:4) concluded that the Partnership Companies “appear to be highly effective in their outreach activity” towards the unemployed.

An evaluation of the AAES/BTWEAS by WRC consultants (1997) based on a survey of participants to these schemes found a number of features common to the businesses established:

- The majority were sole-traders with some dependence on unpaid family members;
- The vast majority of the businesses were established from the owner-managers home;
- There were approximately 75% of businesses which required start-up capital;
- Over 60% of the businesses relied on the local market and less than 50% reported having no significant competitors;
- The majority of businesses generated monthly turnovers of less than £2,000.

Although it was noted that the levels of income generated by these businesses that succeeded were not very high, nonetheless they were estimated to be higher than the income supports from social welfare. Therefore “given a survival rate of approximately 50% of businesses and a progression to employment of approximately 25% of business starters, there are positive outcomes of these programmes of approximately 75%” (ILO, 1999:15). Furthermore it was added that the improvement in one’s quality of life from the establishment of a business can never be measured.

Nonetheless the ILO report (1999) noted some areas in which they found dissatisfaction, and the first was in the provision of financial supports. The Partnership Companies have a very limited financial fund for enterprise creation and/or development, and most funding is limited to small grant assistance for costs such as business cards or mentor support for their clients. This may have implications for the sustainability of the enterprises created, as it is crucial that the necessary time,

support and resources are available to the aspiring entrepreneur, to allow him/her to fully evaluate the enterprise idea. Moreover it is vital that entrepreneurship be actively sought by the participant, to increase the chances of the ensuing enterprise being sustained. Therefore as earlier stated, adequate time and supports need to be available in the development stage of enterprise creation, to allow the aspiring entrepreneur adequate time for reflection on the economic, social and personal consequences of re-entering the labour market and becoming an entrepreneur. Another area identified by the report which needed attention, was in the area of post start-up. More emphasis was called for in the areas of sustainability, long-term viability and access to development capital (ILO, 1999).

In summary the ILO report (1999) recommended that the Partnership Companies retain their role in supporting micro-enterprise start-ups by the unemployed. However it recommended that, so as to provide more effective support, they should have access to a central social start-up fund, and in addition the necessary resources required for providing post start-up supports. Lastly the report also recommended that funding should be operated as revolving loan funds and not grants.

Interestingly, the WRC consultants (1997) found that the clients of the BTWEAS were less educationally disadvantaged than their long term unemployed, or unemployed counterparts. They estimated that 11.3% of clients had third-level education, compared with 4.7% of the total unemployed and 3.1% of the long-term unemployed. Perhaps these results may point to a relationship between the participants' degree of educational attainments and their ability to spot entrepreneurial opportunities in the labour market and subsequently seek available enterprise supports available to them in their external environment.

In the same report it was found that 42% of participants on the BTWAS stated that they would have taken up employment or self-employment in the absence of the support of the BTWAS (WRC, 1997). Such results point to the presence of a high level of deadweight, which was also suggested by an earlier OECD report (1993) in its evaluation of international studies. This reported that deadweight estimates for employment subsidy schemes could be well over 50% of the participants. These figures have implications for the sustainability of such initiatives and their legitimacy as accepted institutional structures in society.

5.11: The LEADER Programme (Liaison entre actions de développement de l'économie rurale – Links between actions for the development of the rural economy).

When the Irish Government was launching the partnership initiative, the EU was “also using related ideas to achieve sectoral goals, notably in rural development and poverty programmes” (OECD, 1999:6). In 1988, following the reform of the structural funds and the subsequent publication of the Commission report titled ‘The Future of Rural Society’ (COM (88) 501 final)

(CEC, 1988), the need for a new policy, which would be specifically geared towards the regeneration of rural society, was initiated.

It was recognised that the policies adopted for rural development in the 1980s were sectoral in approach and tended to be top-down in nature. Therefore one of the first programmes to adopt a multi-sectoral approach was the Pilot Area Programme for Integrated Rural Development (IRD). This programme was managed by the Department of Agriculture and it operated in 12 pilot areas in Ireland. The aim of the IRD programme was to raise income levels in rural areas, and to increase employment opportunities (OECD, 1999). The IRD programme was a very successful pilot programme and it paved the way for the introduction of the LEADER programme.

The LEADER I initiative, was formally announced by the European Commission on 19 March 1991, following the very successful pilot programme on Integrated Rural Development. The LEADER programme operated under the second programming round of the structural funds (1991-1994) under the Community Initiatives (see Table 5.7). LEADER I received 10% of structural funding, (ECU 444million) and operated during the years 1992-1994. The programme targeted disadvantaged regions, which were categorised as Objective one regions (areas which were lagging behind) and Objective 5b regions (fragile rural regions). Funding for the programme was sourced from the ERDF, the ESF and Feoga.

The LEADER I programme covered an area of 61% of the total land area of Ireland and included almost 30% of the entire population (NESC, 1994). There were 16 Local Action Groups (LAGs) (17 in practice) chosen to operate the programme, and they were established as legal entities (company ltd. and in three cases co-operative structures). The programme's initial emphasis was on encouraging the establishment of new enterprises and business, with a lesser emphasis on social and community objectives.

Following the success of the LEADER I programme, the second programme - LEADER II was established in Ireland and operated from 1994 to 1999. The LEADER II Programme had a catchment area of 2,296,043km, which represented 63.3% of the national population and covered about 99% of the total land area of Ireland (Kearney et al, 2000). These figures highlight the predominantly rural nature of the Irish landscape and the underlying need for such a rural initiative to assist the development of these areas. There were 36 Groups selected to operate the LEADER II programme and public expenditure for this programme amounted to IR£92.8m.

A notice to the member states outlined the aim of the LEADER II Programme:

“To stimulate innovative measures by those, whether public or private, engaged at local level in all sectors of rural activity, to make known the results of these experiments throughout the Community

and to assist rural operators in different member states, who wish to profit from the lessons learnt elsewhere and to work jointly on some projects” (Kearney et al, 2000:1).

The main differences between the two programmes was on the emphasis placed on innovation, trans-national cooperation and exchange of experience and know-how in the new LEADER II programme. Innovation was to be considered in terms of “method, product (including services and community-based or private promoter group projects), and production process of market” (Department of Agriculture, Food and Forestry, 1995:8). Trans-national cooperation and exchange of experience of know-how were encouraged so as to share successful practice and activities with other areas amongst the EU member states. This exchange of good practice was also an institutional vehicle to encourage the formation of inter-organisational relationships amongst the different LEADER Companies across the EU. Other differences in the second programme included: the adoption of a new measure eligible for support preservation and improvement of the environment and living conditions; more consideration given to the structure of the LAGs; the establishment of performance indicators; and the inclusion of animation in the local action plans (Kearney et al, 2000).

The LEADER II programme operated alongside the OPLURD – a significant factor, as LAGs were also required to interact with and develop inter-organisational relationships with the CEBs and Partnership Companies which were also funded under this programme. This ensured that the LEADER Companies would not become exclusive agencies or act in competition with other official state bodies (Department of Agriculture, Food and Forestry, 1995). It is worth noting that 9 partnerships jointly managed the LEADER II and Area partnership programmes, while the Meitheal Mhaigheo Partnership was sub-contracted to three LEADER II companies for delivery (ibid, 2000).

LEADER groups were formed as private companies limited by guarantee with a charitable status (ibid, 2000), however the size, composition and organisational structure varied greatly from one company to another (OECD, 1999). They were managed by a Board of Directors – the decision making authority, which usually consisted of “community and voluntary groups, local sectoral interests such as farming groups and chambers of commerce and state agencies such as FÁS, Forbairt, SFADCO and Teagasc” (ibid, 1999:7). All formal applications made to the LEADER Company had to be submitted to the Board for evaluation, recommendation and decision. The evaluation of the LII programme noted that the Boards were much more tri-partite and representative than the preceding L1 programme.

The staff employed in the LEADER Companies usually consisted of a manager, a local development officer/ animator, a project evaluation officer and administrative staff. The recommendations regarding the level of staffing were based on the general rule that the public

funding contribution to administration and animation costs should not exceed 25% of the total public funding allocation to the Group (Kearney et al, 2000).

The local action plans prepared by each LAG were assessed under the LII programme according to their level of innovation, their capacity to serve as models and to be transferable (ibid, 2000). The groups prepared their plans according to the characteristics of their areas, which included their available natural resources, human capital, enterprise activities and employment opportunities. Kearney et al (2000) noted that the main objectives of the development plan was to encourage the economic and social well-being of the local area by implementing a multi-dimensional and multi-sectoral programme and by involving local partners in the process.

In the LEADER II guidelines (Department of Agriculture, Food and Forestry, 1995:8-9) the following projects were considered for funding:

- Rural tourism (marketing grants (50%), accommodation (20%), modernisation of existing accommodation (20%), leisure activities (50%), and tourism/office information centres (50%);
- Small firms, craft enterprises and local services (50%);
- Agriculture, forestry and fisheries: cheeses, yoghurts, preserves and other small food enterprises (50%), equines for pony trekking (50%), exploitation for biomass and of waste from the wood industry (50%), marketing and promotion (50%), diversification of agricultural production (50%), development of aquaculture and non-commercial sports fishing (50%), and horticulture (50%);
- Preservation of the environment and living conditions: renovation and development of villages and existing architectural heritage (50%), support for cultural creativity and the promotion of cultural products linked with rural development (50%), protection, rehabilitation and exploitation of natural resources (50%), and disposal and recycling of waste, including use for energy production (50%).

The guidelines further stated that “LEADER is not intended for major development projects and an overall ceiling of £50,000 grant aid per project will apply” (ibid, 1995:14). The type of aid given by the LEADER Companies took the form of:

- Technical assistance (group’s animation and capacity building, feasibility studies/market research);
- Capital investment;
- Marketing;
- Training and recruitment;
- Interest/rent subsidies;

- Employment grants (at £100 per week subject to a max. of £5,000 per person employed in a newly created job) (ibid, 1995:11)

Activities which were not funded, included second hand equipment, the purchase of land or building's, working capital (including stock), motor vehicles or mobile equipment, and residential housing and loans (ibid, 1995).

The Groups were required to consider projects proposals presented to them by reference to the following criteria:

- The project promoter must show that there is a market for the proposed product or service and that the project will be capable of attaining economic viability;
- The project has the capacity to create new direct employment either full or part-time or seasonal, or should as a minimum contribute directly to the maintenance of employment in existing small enterprises;
- Adequate overall finance will be available to the promoter to fund the project;
- The promoter possesses sufficient management and technical capacity to implement the proposed project (ibid, 1995:20).

More specifically for the individual project promoters, the evaluation procedure was required to consider whether the promoter possessed the necessary qualifications, training, and skills required to establish and/or develop the project.

The LEADER Companies were a very significant source of funding to the small business sector. The LII guidelines under the measure for small firms, craft enterprises and local services, stated that SMEs (including services) could be entitled to funding if they were “generally in rural areas, both on and off farm, provided viability is demonstrated, there is job creating potential and similar enterprises elsewhere are not put at risk” (ibid, 1995:8). However whilst the LEADER programme had an enterprise budget, administrators were required to refer projects on to the CEB in the first instance, especially so as to avoid duplication of funding.

Nonetheless Kearney et al (2000) noted that under the SME measure, 561 capital grants were paid to existing enterprises, 451 to new enterprises, and some 168 marketing grants were paid. They added therefore that it was the SME Measure which was noted as the most conducive to job creation and sustainability and more relevant than had been initially anticipated. By August 2000, it was estimated that the total payments under the measure had reached approximately IR£11.3m (ibid, 2000).

Overall, the success of the LEADER Programme in terms of its output value achieved, can be appreciated by the fact that by 1999, 4,849 full-time equivalent jobs had been created, and a further 3,508 jobs sustained, which gave a total of 8,357 jobs supported under the programme (ibid, 2000). Expenditure to the end of August 2000 was estimated at approximately IR£83m, and according to indicators from the end of 1999, in excess of 13,000 project applications had been processed and almost 9,200 projects approved (ibid, 2000).

The strengths of the LEADER approach were noted as including the mobilisation and involvement of local actors in the development of their local areas, the adoption of a bottom-up approach to development, the development of networks and the transfer of ideas and models of good practice and the support of small-scale projects (CEC, 2000b).

5.12: The stages of business growth

In this section a ‘stages of internationalisation model’ will be examined, so as to highlight and provide a framework for the different activities which take place once the decision has been made to expand the exporting activities of one’s enterprise.

5.12.1: Stages of internationalisation model

It is recognised that the entrepreneur is central in the decision to grow his/her enterprise and, when this decision is made, the owner-manager considers and actively searches for markets beyond their local market. Some have referred to this increase in the scope of one’s exporting activities as the ‘internationalisation’ of the firm, and Christensen (1991:50) has argued that “since the end of the 1970s there has been a major consensus in research circles that firm’s internationalisation can best be viewed as a process of gradual commitment to export”. The following ‘stages of internationalisation model’, designed by Cavusgil (1980), is a useful framework in examining the different stages of exporting activity amongst SMEs (Fig. 5.1).

Fig. 5.1: Stages of Internationalisation Model

Stage	Critical Activity
1. Domestic marketing	Preoccupation with the home-market
2. Pre-export stage	Deliberate search for information and primary evaluation of the feasibility of undertaking international marketing activity
3. Experimental involvement	Initiation of limited international marketing activity
4. Active involvement	Systematic exploration of expanding international marketing activity
5. Committed involvement	Resource allocation based on international opportunities

Source: Cavusgil, S.T. (1980:274).

The model suggests that many enterprises upon establishment may depend on their home market to sell their product or service. Such activities will therefore correspond to stage one of the model. Once this market has been established, the entrepreneur evaluates and considers the feasibility of expanding the export market. Therefore s/he actively searches for alternative export opportunities beyond their home market. This stage corresponds to stage two of the model – the pre-export stage. Once the entrepreneur has considered and evaluated the export expansion s/he initiates limited international marketing activity – corresponding to stage three of the model. During this time the entrepreneur has improved their skills and increased their awareness of market opportunities and market demands. This stage may also be characterised by an increase in the employment base, as Smallbone and North (2000:1) have suggested that “the extent to which any business can maintain or increase employment depends on their ability to survive and grow over a period of time”. They further argued that this is “the result of an interaction between internal and external factors” (ibid, 2000:1), and such factors are examined in subsequent chapters.

The entrepreneur who desires further expansion begins a systematic exploration of expanding international marketing activity and this stage of development corresponds to stage four of the model. Stage five represents committed involvement and it depicts resource allocation based on international opportunities. The entrepreneur who develops his/her enterprise to this stage will undoubtedly have improved his/her business skills, the product or service will have an established place on the international export market, and s/he will have increased employment and perhaps sought alternative locations for the further development and/or expansion of the enterprise.

5.12.2: The decision to develop one’s enterprise

Christensen (1991:51) argued that there were two issues which were central in the decision to grow one’s enterprise:

1. *“The commitment of the firm to export, i.e. the sense of resource commitment, management commitment and a general commitment of the organisation”*. In Chapter 4 it was argued that micro-enterprises were very much shaped by the characteristics of the entrepreneurs. Therefore it is necessary for the entrepreneur to have the ability, desire, skills, external help and motivation to successfully export to an international market. Furthermore, it is acknowledged that many micro-enterprises survive without ever engaging in exporting activities.
2. *“Market intelligence, i.e. firms acquisition of export relevant information”*. The ability to spot opportunities, gaps and ideas in the market place and to use one’s entrepreneurial ability to gain the economic and personal advantages from this, is the essence of entrepreneurial behaviour. Furthermore the establishment of the enterprise-supporting organisations, has facilitated some entrepreneurs in improving their marketing skills and

subsequently in their search for export markets. However it is recognised that in an increasingly open and competitive market, entrepreneurs will need the necessary marketing skills, awareness and the ability to seek and gain a competitive advantage in the marketplace. Again this will depend on the degree of human capital i.e. skills, education, resources etc. and the personal desire to improve and/or expand ones export information.

Christensen (1991) argued that although there is an identified substantial time lag from the establishment of an enterprise to the time when it begins to export, he argued that it will be necessary for SMEs to “reduce the time-lag between the birth of the enterprise and the initiation of the export activity” (ibid, 1991:55).

There have been a number of criticisms of attempts to model the stages of growth of enterprises collectively. Packham et al (2001:7) argued “these evolutionary models, fail to acknowledge that there is invariably no inevitability of progression”. Furthermore, in recognition of the importance of the personal goals of the entrepreneur/s, they noted that, in many instances small firms do not opt for growth, in line with the personal desire of the owner/manager.

For the purposes of this study, it is accepted that not all business will go through different stages of growth identified by growth models. Nonetheless it is recognised that the time, skills and ability needed to progress to each stage will be unique to each enterprise. The diversity in micro-enterprise activities highlight the range of products, services and/or activities, in operation across locations. For that reason, no attempt will be made to suggest a common growth framework for the entire sample.

5.12.3: Satisfice or Maximise?

The above ‘internationalisation model’ assumes that the entrepreneur wishes to expand and develop their enterprise. An alternative assumption was proposed by March and Simon (1961:140) who argued that “the goals of organisations are to meet satisfactory rather than optimal standards”. This is further explained by Rowlinson (1997:18):

“In terms of business behaviour this means that firms do not maximise profits; instead, they seek to attain at least a satisfactory rate of profit, or to hold a satisfactory share of the market....organisations are compelled to satisfice rather than optimise because optimising requires an unlimited capacity to process information in finding and evaluating alternative courses of action”.

As stated earlier the decision to remain small may be the personal decision of the entrepreneur. This decision may be made for a variety of reasons – economic, personal or otherwise. However it is recognised that in order to develop one’s enterprise a new set of skills, resources, personal and economic investment, and further interaction with external institutions will be required, and that not all entrepreneurs will have the ability or willingness to successfully move to a new stage in their business development.

March and Simon (1961) used the term bounded rationality to describe the limits on the human capacity to process information, and this term stresses the need to consider the ability of the individual entrepreneur to explore expansion opportunities. Moreover, in the context of Population Ecology Theory, Pfeffer (1982:234) argued “if the environment only imperfectly reflects what the organisation did and information from the environment is itself ambiguous, how can behaviour be orientated toward satisfying environmental demands and constraints”. Therefore the individual abilities, aspirations and availability of unambiguous, accessible and essential supports, must be considered when accessing the likely or actual desire to expand one’s enterprise.

Interestingly Rowlinson (1997:18) argued if one lived in a perfect world and if “economic actors could know all the alternatives in advance, as well as their choices between the different alternatives, then there would be no need for any search routine in the form of organisations. Indeed, economic actors would hardly be likely to join collective organisations which ‘satisfice’ if they could ‘optimise’ for themselves”. This would call into question the very relevance of providing institutional supports for enterprise activities.

5.13: Forms of business ownership

The aim of this section is to examine briefly the different legal structures one may adopt when establishing a micro-enterprise. The entrepreneur can choose between a number of legal forms which in-turn will determine the legal status of his/her enterprise. The forms include, sole trader status, unlimited company, limited company (Ltd.), a partnership or a co-operative structure. It is argued that the entrepreneur decides which legal status is most suited to his/her enterprise based on a number of personal and/or economic factors:

- *Personal factors* – These may include: the desire to stay small, and in such cases the decision may be to remain as a sole trader; the desire to involve others in the enterprise, to which a partnership or company ltd. structure may be the preferred choice; or the desire to expand one’s enterprise, in such case the formation of a company ltd. may be the preferred option;
- *Economic factors* – considerations such as the availability of seed capital and/or the amount of capital one is willing to invest in the enterprise may influence this decision, as certain forms of ownership entail costs and other forms bear considerable economic risk for the entrepreneur.

Immink & O’Kane (1997:53) suggested four other considerations which help in deciding which legal structure to choose: i) the kind of business being started ii) the expectations of those with whom the entrepreneurs plans to do business iii) the attitude to risk, and, iv) how the entrepreneur wishes to organise tax affairs. Whichever structure one chooses for their individual enterprise, each

structure will bear a certain amount of risk for the entrepreneur, and the level of risk associated will be examined under each category.

5.13.1: Sole trader

In simple terms, the sole trader is a one-person enterprise established by an entrepreneur who manages the enterprise. Most enterprises begin this way and, when they develop and/or expand, the owner may make the decision to change the legal status to one more suited to a developing enterprise.

The advantages of this form of ownership are many. Although it is necessary for the sole trader to be registered for VAT, s/he can avoid certain rules and legal expenses required by other legal forms. Remaining as a sole trader is very suited to the entrepreneur whose intention it is to remain small and/or to the entrepreneur who wishes to establish the business immediately. Furthermore if the sole trader wishes to trade under their own name they can establish the business immediately, however if they would like to trade under a different name they are required to register that name under the Registration of Business Names Act of 1963. The sole trader may keep all the profits generated by the business and his/her financial accounts do not have to be published. This is a particular advantage to those entrepreneurs who wish to avoid their personal financial details being made available to the public eye.

However there are disadvantages associated with this form of legal status. It is recognised that most sole traders use their personal investment in the enterprise and, as this form of ownership means that the sole trader has unlimited liability, s/he can be held responsible for all the debts incurred by the business. This may mean that personal assets such as the home have to be used to pay any debts incurred. The sole trader is also required to pay income tax at a higher rate than corporation tax.

As Roper (1997:354) noted, “a new business start-up essentially has no inherited position apart from the characteristics and/or resources of the entrepreneur”. This point is especially true of the sole trader as s/he bears the sole responsibility for the established enterprise, therefore there are other internal problems associated with this form of ownership. It is estimated that business owners work very long hours, up to 70+ hours per week; this may be particularly true of the sole trader, as they have the sole responsibility of establishing, developing and managing the business. As the enterprise relies on the resources of the owner/manager, this may have implications for the development or sustainability of the enterprise. They may also be at greater risk from the change, introduction or adaptation of business regulations. Furthermore when the sole trader dies the enterprise may have no continuity of existence. Therefore, all things considered, this form of ownership is highly risky.

5.13.2: Partnerships

A partnership enterprise is operated by a group of between 2 and 20 people. This form of ownership is not very popular amongst entrepreneurs, especially as each partner has unlimited liability, which means they can be held responsible for any debts incurred by the business.

The advantages of this form of ownership include the greater number of owners managing the enterprise, who may each bring to and use their own capital, skills and resources in the establishment and development of the enterprise. Therefore the business does not rely on one owner/manger. The accounts of the partnership do not have to be published and again this may suit those who do not desire their financial details to become known.

5.13.3: Company limited (ltd.)

The company ltd. structure is a popular and safer option and it was estimated that in 1999 there were 161,000 private companies in Ireland (Companies Registration Office, 2002). There are four types of company ltd. (ibid, 2002):

1. A private company limited by shares;
2. A company limited by guarantee not having a share capital;
3. A company limited by guarantee having a share capital;
4. A public limited company.

The main difference between public and private companies is related to the type of shares in the business, i.e. shares in a private limited company cannot be bought or sold on the stock exchange. Under the Companies Acts (1963-1999) a company ltd. had to have a minimum of 2 and a maximum of 50 shareholders, however new “EU regulations now allow the formation of private limited companies with only one member” (Immink & O’Kane, 1997:54).

The owners of a company ltd. are referred to as shareholders, and it is managed by a board of directors who invest in the company. Each shareholder has limited liability, which means that if the business fails, they will not lose their personal assets, indeed they lose only the value of their investment in the business. This is why some companies are limited by guarantee, which means that each member of the company agrees to pay a certain amount if the company goes into liquidation.

The main advantage of forming a company ltd. is that the company stands alone from those who manage it, or in other words, it is treated as a separate legal entity. This has implications if the

company incurs any debts, as the individual shareholders will not be sued in this event, and this form is therefore less risky than the sole trader or partnership structure. Furthermore those who manage a company ltd. may also have a greater chance in securing external funding than a sole trader. Having a team of owners may also mean that each owner uses their individual skills, capital, interests and expertise in the establishment, operation and development of the enterprise. Moreover upon the death of an individual shareholder the business continues to exist. The responsibility for the day-to-day operation of the business may not rest on one person and therefore the number of hours devoted to the enterprise by any one member may be considerably shorter than those of the sole trader. Roper (1997:355) has also noted that many authors have found that “an entrepreneur’s willingness to share the equity or ownership of a business is strongly and positively associated with business growth”.

The disadvantages associated with this form of ownership include the legal costs involved in the establishment of a company ltd. There is also a considerable amount of paperwork involved in establishing a limited company. The company must prepare a Memorandum and Articles of Association which is given to the Companies Registration Office and is available for public inspection at the Companies Office. An Article of Association must also be prepared for each of the company’s shareholders. The owners of a company ltd. must register with the Registrar of Companies and await the Certificate of Incorporation before commencement of business.

It is also required by law to have the accounts audited and filed annually with the Register of Companies for inspection. However, for those who do not favour the publication of their financial accounts, the Companies (Amendment) (No.2) Act 1999 states that a company which has a turnover not exceeding EUR 317 434 and has a balance sheet total of less than EUR 1.9m and less than 50 employees does not have to submit audited accounts with its annual return to the Companies Registration Office. Although it is still required that companies in this category file a set of ‘abridged accounts’, these do not have to be audited (Companies Registration Office, 2002).

The European Charter for Small Enterprises (CEC, 2001b), which was adopted by the General Affairs Council on 13 June, 2000 and welcomed by the Feira European Council on 19-20 June, 2000, identified key areas for improvements to encourage and support enterprises. Amongst the improvements which were recommended were cheaper and faster start-up and better legislation and regulation. It is of particular importance that the process of starting-up an enterprise is as trouble free as possible, as “business start-up registration is the first point of contact between the business owner and the government, and it will set the tone for their future interaction” (Jansson, 2000:2).

With this in mind, there have been considerable improvements with regard to the registration process for those who wish to establish a company ltd. in Ireland. The Companies Registration

Office (2002) has introduced a reduction in the fee for registering a company from EUR 184 to EUR 63, together with speeding up the process for the registration of a company and developing its on-line access, e.g. CROdisk. These improvements in the registration process mean that an entrepreneur can have his/her company incorporated within five days.

In comparison with international registration requirements, such as in Latin America, Jansson (2000:2) noted that those registering a business there face a “myriad of formal requirements” including “long processing times” and an “onerous and expensive registration process”. He noted specific examples, worth considering for comparative purposes:

“In Costa Rica the entrepreneur generally must spend at least two to four months and pay at least \$100 to register with a minimum of six different government agencies. In Panama the process takes three to five months and costs the entrepreneur \$1,000 to \$2,800. In Argentina the entrepreneur typically spends one to four months and anywhere from \$350 to \$1,500”.

Therefore one can say that the process for registering a company ltd. in Ireland is considerably easier and faster for the entrepreneur, thus contributing to a better climate for enterprise creation and development.

5.13.4: Unlimited company

This form is very similar to a company ltd. except that as the title implies, the members of the company have unlimited liability, which means that any debts incurred by the business are borne by its members.

5.13.5: Co-operatives

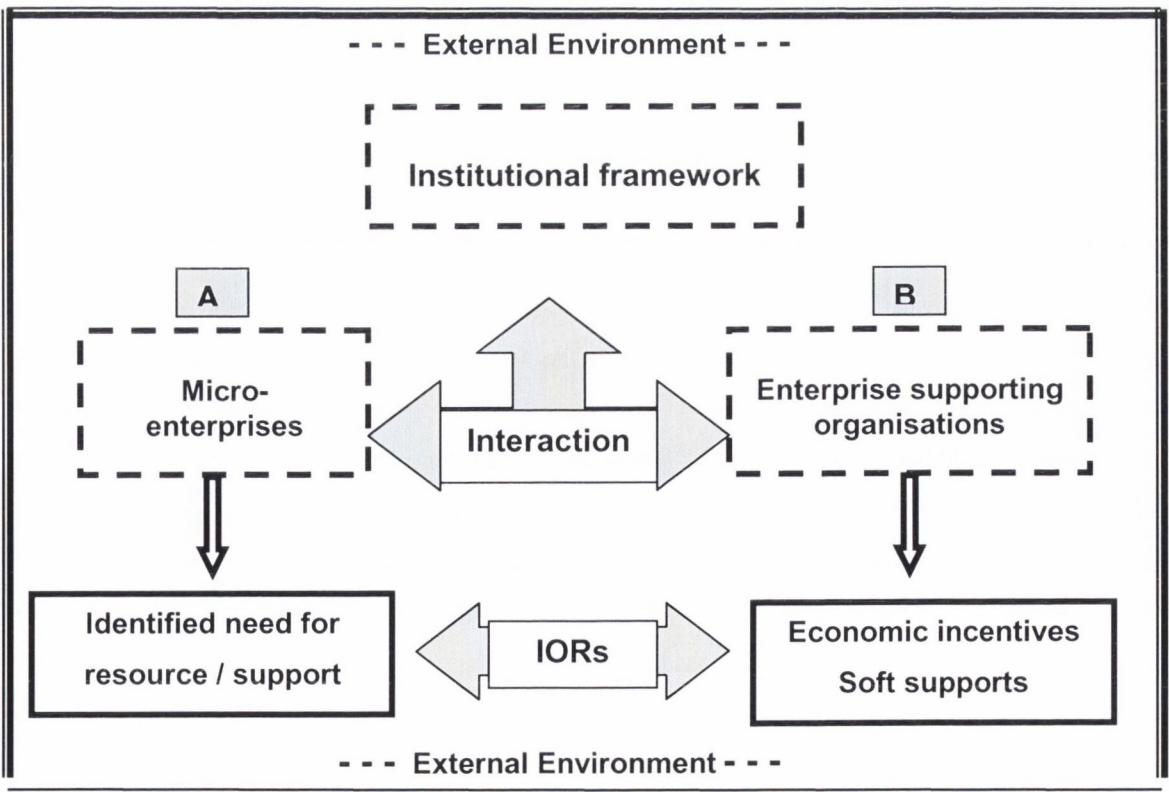
Although co-operatives are characterised by open membership, they are required to have a minimum of 7 members. Co-operatives are formally managed by a management committee. Upon formation, a co-operative must register with the Registrar of Friendly Societies and also file an annual financial return, which is also made available for public inspection.

Each member of a co-operative is entitled to one vote regardless of the amount of investment they have made in the enterprise. All members have limited liability, therefore any loss suffered will amount to the total investment in the co-op by the individual. In the same way, any profit made is distributed to its members in direct proportion to how much the members invest with the co-operative. The most common types of co-operatives are producer co-operatives, worker co-operatives, consumer co-operatives and community co-operatives e.g. credit unions.

5.14: A conceptual and contextual framework for understanding the interaction of entrepreneurs and enterprise-supporting organisations.

In Fig. 5.2 a model demonstrating the conceptual and contextual framework for understanding the interaction of entrepreneurs with enterprise-supporting organisations is presented. The organisational environment is contained within the boundaries of the institutional framework and the external environment, as it is argued that any consideration of organisational change and interaction must involve an appreciation of external institutional and environmental influences. Thus, organisation *A* represents a micro-enterprise with an identified need for a resource and/or support. The entrepreneur is the individual who is at the centre of the interaction process, therefore s/he searches for available resources and/or supports within the external environment. In this respect the micro-enterprise can be considered as an organisation which is action and goal orientated, purposeful and embedded in an environment composed of other organisations. Organisation *B* represents the enterprise-supporting organisation which contains the necessary resources and/or supports required by the micro-enterprise. Thus Organisation *A* is dependent on the supports and resources which are controlled by Organisation *B*. Interaction is considered to be an organisational practice and it occurs, to achieve the required resources and/or supports controlled by an external organisation. This interaction process will involve the formation of inter-organisational relationships (IORs) between the organisations involved in the interaction process.

Fig. 5.2: A conceptual and contextual framework for understanding the interaction between micro-enterprises and enterprise-supporting organisations.



Central to the interaction process will be the entrepreneurs' evaluation of the experience of interacting with the external enterprise-supporting organisations. It is argued that the process of interaction and the formation of inter-organisational relationships will determine whether interaction has been a positive and/or negative experience for the entrepreneur. The factors influencing the creation of positive and negative interaction experiences have been examined in Chapter 4 (Section 4.9). Consequently the entrepreneurs' evaluation of this process will influence the decision to engage in further interaction with the organisation. A positive interaction experience will imply that the entrepreneur has both accepted and considered legitimate the practices, rules and technologies employed by the external organisation. A negative interaction experience on the other hand, will imply that the entrepreneur has not accepted such criteria. Nonetheless, both positive and negative experiences can be explained by reference to the regulative, normative and cognitive elements which make up and support the organisations (Scott, 1995). In both respects the interaction process will involve the entrepreneur becoming dependent on the external organisation and the extent and acceptance of this dependency relationship will be determined by the individual organisations.

5.15: Conclusions

The aim of this chapter was to develop a theoretical and contextual framework into which the interaction of entrepreneurs with enterprise-supporting organisations could be explained and the operation and functioning of the external institutional environment could be understood. At the outset, it was recognised that the entrepreneurs interacted with the enterprise-supporting organisations, which were available to them within the external environment, in order to receive the necessary resources and support required for the creation and/or development of their enterprises. Thus a model demonstrating the conceptual and contextual framework for understanding this interaction was presented (Fig. 5.2).

The chapter examined the theoretical and empirical literature on institutional and organisational theory and the formation of inter-organisational relationships. Subsequently it was argued that any examination of emergence, change and/or interaction between organisations must be considered within the context of the institutional framework under which they were established. With this in mind, the institutional support for micro-enterprise creation and development was considered by reference to past and current policy for micro-enterprises in Ireland. Reference was made to the influence of EU policy and support, the adoption of the 'partnership' approach to development in the 1980s and the subsequent establishment of the three partnership initiatives of the 1990s – namely the County Enterprise Boards, LEADER Companies and Partnership Companies. It is proposed that these initiatives were established to achieve the goals of enterprise support by using a collective and hence 'partnership' approach to reduce uncertainty, to establish an order of micro-enterprise supports, to achieve enterprise outcomes and most importantly to achieve change.

Furthermore, the availability of such enterprise-supporting organisations was considered a significant contribution to the munificence of enterprise supports within the entrepreneurs' external environment. It is recognised that small firms have less ability to influence, shape and adapt to external environmental influences, and therefore the establishment of such organisations is invaluable to the creation and/or development of micro-enterprises in Ireland.

In light of the introduction of enterprise-supporting organisations, it was considered that there has been a movement from the Conservative Darwinist 'survival of the fittest' approach to the recognition of the need for government intervention and supports of this nature. Nonetheless various arguments in support of, and in opposition to government support of enterprise creation were presented, and the overall view presented argued in favour of such supports for improving the capacity of entrepreneurs and ensuring the creation and development of micro-enterprises. Furthermore, it was considered that appropriate assistance at an appropriate time is needed so as to help people to build an economic foundation and to avoid dependency on institutional supports.

An examination of the 'stages of internationalisation' model (Cavusgil, 1980), which considered the various growth stages of an enterprise was presented. In light of March and Simon's (1961) 'satisfice' and 'maximise' thesis, it was proposed that some entrepreneurs may not wish to expand and thus will be satisfied with the existing size of the enterprise. The decision to expand one's enterprise will be influenced by the entrepreneurs' motives, goals and expectancies for the enterprise (Chapter 4).

The chapter concluded with an outline of the different legal structures of businesses. It was argued that regardless of the type of legal structure the entrepreneur chooses, the business start-up process may be the first point of contact between the entrepreneur and the government (Jansson, 2000). In this respect this process should be a positive experience rather than a negative and/or regulatory burden for the entrepreneur. Undoubtedly the improvements in the regulatory environment for business regulation in recent years has contributed to the creation of a favourable entrepreneurial environment.

In conclusion, it is recognised that there are many factors which influence the interaction between entrepreneurs and external organisations, and that, as interaction is necessary for micro-enterprise creation and/or development, it is important that such interaction is positive for the entrepreneur. It is with this in mind, that we look to the following three chapters which examine the results of the data obtained for the purposes of this research study and thus contribute to a more comprehensive understanding of the entrepreneurial process.