

# Preface

At the time of writing, the effects of the ‘financial crisis’, that followed the collapse of Lehman Brothers in September 2008, linger on. Having shrunk by some 0.6 per cent in the final quarter of 2010, the UK economy is likely to record modest growth of around 1 per cent in 2011, with a similar gloomy forecast for 2012. The UK, of course, is not alone in its travails. The IMF’s *World Economic Outlook*, published in September 2011, ‘paints a sobering picture about the likelihood of a double-dip recession<sup>1</sup> in France, the United Kingdom, and the United States’ (p. 55). Meanwhile, sovereign debt crises across the Eurozone have had profound effects on member countries, with the EU’s ‘bailout’ of Greece alone running into the hundreds of billion euros.

All of this suggests troubling times for entrepreneurs and would-be entrepreneurs. As Chapter 2 discusses, many forms of entrepreneurial activity are pro-cyclical. That is, they tend to follow the fortunes of the economy as a whole. Businesses whose low entry-barriers make them easy to start in good times, such as restaurants or small retail stores, are also those most likely to fail in a recession as potential customers tighten their belts. In this sense, the High Street is an excellent barometer for the economy as a whole. Of course, we know that periods of high unemployment tend to be followed by periods of high self-employment as unemployment lowers the opportunity costs of entrepreneurship. But what makes the current recession different from its counterparts in the ’70s, ’80s and ’90s is who is being made redundant. Unlike in previous recessions, the rise in unemployment this time is being driven, in large part, by public-sector cuts – putting people out of work who may be less able or less inclined to pursue entrepreneurial careers. Confounding these difficulties are the slow recovery and the shortage of reasonably priced debt finance.

Certainly, not all forms of entrepreneurship are pro-cyclical. Some, such as discount stores or similarly inspired ventures, may be counter-cyclical as uncertainty and changing spending patterns create opportunities for entrepreneurs. Others, with large entry and exit costs, may appear more or less independent of the cycle. What is clear is that many believe that stimulating entrepreneurship is an important component of any economic recovery and development plan. This belief is clearly manifest in government commitments to supporting ‘enterprise’. Recent examples include the UK’s fledgling New Enterprise Allowance, which provides the unemployed (Jobseeker’s Allowance claimants who have been claiming for 26 weeks) access to a volunteer business-mentor, a ‘soft’ start-up loan and a small ‘wage’ as they start their own businesses. Of course, Margaret Thatcher’s first Conservative government introduced a similar scheme to address unemployment concerns in the early 1980s. Despite assisting some individuals who became involved in high-profile successes (e.g. Alan McGee of Creation Records and the founders of *Viz* magazine) this earlier scheme was subject to considerable contemporary and subsequent criticism. Concerns include the limited employment creation potential of assisted firms, the high failure-rates, and the extent to which subsidizing new entrants to compete against existing firms is good policy.

Regardless, these sorts of activities and the difficult economic climate make it still more important that we strive for greater understanding of entrepreneurship and small firms. Economic and financial contexts change, but entrepreneurs will still seek and exploit opportunities, small firms will still be at the forefront of innovation and our future prosperity will depend upon their increasing importance in our economy.

## STRUCTURE OF THE BOOK

This sixth edition of *Entrepreneurship and Small Firms* continues our policy with this text of using the new editions as an opportunity to revise all the chapters and to introduce new material, reflecting current issues,

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<sup>1</sup> A double-dip recession refers to a period of recession followed by a short-lived recovery followed by another recession.

research and academic debate on entrepreneurship and small firms. For example, in this edition, the reader will find a new chapter on ‘Corporate entrepreneurship’, reflecting a growing belief in an increasing entrepreneurial imperative for large corporations and other large organisations. We have also taken the opportunity to revise completely some of the chapters; those that have undergone a complete rewriting with new material include: Chapter 4 on ‘Diversity in entrepreneurship’ with new material from Dr Laura Galloway; Chapter 8 on ‘Venture finance’, which has been given a more international focus and incorporates data from key developing economies; Chapter 9 on ‘Innovation and entrepreneurship’, which has been rewritten to include new material on open innovation; and Chapter 12 on ‘Issues in business start-up’ has been revised to include new material on support agencies. Readers familiar with previous editions of the text will also note significant ‘updating’ in all the chapters. These efforts reflect our commitment to present students and teachers with current thinking, underpinned by the most up-to-date data. Many of the chapters also incorporate new case material, with further new material in the Online Learning Centre.

But perhaps the biggest change in this edition is the structuring of the text around four ‘parts’. These parts group together chapters with similar themes or intents and help signpost the reader through the text. The opening part, for instance, is concerned with setting the scene. In it, Chapter 1 introduces the reader to longstanding theoretical debates on the nature of entrepreneurship and newer material on entrepreneurial learning; while Chapter 2 explores the role of small firms, as vehicles for entrepreneurship, in a range of different economic settings. Part 2 focuses on various ‘domains’ of entrepreneurship. As the text consistently stresses, entrepreneurship is a heterogeneous phenomenon and understanding it involves better understanding the multiplicity of contexts in which it occurs. To this end, Part 2 includes chapters on ‘Family businesses’ (Chapter 3), ‘Diversity in entrepreneurship’ (Chapter 4), ‘Social entrepreneurship’ (Chapter 5) and ‘Corporate entrepreneurship’ (Chapter 6). Part 3 places the focus more firmly on the development of smaller businesses and on the strategic issues that concern owner-managers. This part is not a ‘how-to’ manual. Rather it elaborates the processes and challenges that many firms will face as they attempt to access finance (Chapter 7), deal with venture capitalists (Chapter 8), push to innovate or grow (Chapters 9 and 10) or venture into new markets outside their home country (Chapter 11). Finally, part 4 concerns itself with ‘making it happen’. In Chapter 12, we recount many of the key issues in business start-up, elaborating upon the different stages involved in launching a new venture and the various resource challenges prospective entrepreneurs may face. The text closes with Chapter 13, which provides important material on constructing business plans and, more importantly, on the planning process.

To complement this restructuring of the text, we have been fortunate in sourcing a series of ‘integrative’ case studies that serve as section openers. These cases have been drawn from the *European Entrepreneurship Case Study Resource Centre* ([www.eecsrc.eu](http://www.eecsrc.eu)). In this we are grateful for the help and guidance provided by Tom Cooney and to the authors of the cases used. The versions which appear in the text are abridged and full versions are contained in the Online Learning Centre (OLC) that accompanies the text. The EECSRC is funded by the European Commission and is an excellent and timely (and free!) resource for anyone involved in entrepreneurship education. It provides exposure for those writing case studies and a bank of edited cases for those trying to enthuse students about entrepreneurship.

Despite these structural changes, the overall style has been retained. Many of the successful features introduced in the third edition, such as ‘Entrepreneurship in action’ boxes, case studies and suggested assignments, remain and we hope that the text continues to be readable. As in the fifth edition, we have sought to bolster the Online Learning Centre, which contains much new and some old material. In part, this is about space constraints in the main text and was driven by reviewer comments on earlier editions. It is also about providing our readers and adopters with valuable additional material. To get the most benefit from this edition, students should consult this online resource material. We have, of course, retained and revised the tutors’ online resource material, which contains lecture slides and additional material not available to students.

This sixth edition has also retained the learning and pedagogical features that were introduced with previous editions. Learning outcomes are given at the start of each chapter; boxed examples, titled ‘Entrepreneurship in action’, are provided where appropriate throughout the text, and review questions are also incorporated to review the material and to allow the reader to reflect upon the material and develop alternative concepts. Suggested assignments are given for each chapter; some of these incorporate or draw upon the additional material available in the student online material. Finally, the reader should find that the references have been completely updated, reflecting recent developments in academic debate and changes in the policy agenda, and also that the recommended reading sections have been updated and are included at the end of each chapter.

## USING THE TEXT

This text is aimed at undergraduate and postgraduate students of entrepreneurship, enterprise, small firms and business venturing. Comments on using the text are provided here for students and lecturers.

**Students** will find that the text has been designed to be read in digestible sections. Chapters are broken up with highlights such as the ‘Entrepreneurship in action’ features and with review questions at the end of the chapter. These questions do not treat each of these sections in isolation; rather they try to encourage the student to consider some of the implications raised in the chapter’s content and material and attempt to get them to think further and perhaps link the material to that in other chapters of the text. Hints are given to enable them to do this. Suggested answers to the review questions are provided in the student’s online resources material. These are not meant to be prescriptive, but provide an indication of the ways to think about the questions set, which may be in a discussion form.

The text is designed to cover entrepreneurial and small-firm theory, concepts, evidence, policy and practice. It is designed to link these areas together. For example, discussion of entrepreneurial concepts is followed by practical mini-case examples or discussion of theoretical issues in small-firm development; discussion of the growth of small firms is followed by a discussion of evidence; discussion of business creation is followed by discussion of some of the policy implications and policy measures, as well as practical examples. You are encouraged to link these distinct elements together through the review questions and suggested assignments. For example, you may be asked to relate entrepreneurial concepts to a practical case study.

The detailed case studies, most of which are in the online student resources for this edition, are all real entrepreneurial cases. In some of them, names have been changed to preserve anonymity. They are designed to take you to a decision point in the case study, to put you in the place of the entrepreneur. This may form part of a class group discussion in which you discuss the different paths the entrepreneur(s) may take and give a recommended course of action. It is important to realize that there is ambiguity in entrepreneurial decision-making. An ability to recognize different options can be as important as the actual decision made. A number of options can be equally valid courses of action; in other words, there is not necessarily one right answer. However, there are, for some of the detailed case studies, further sections provided in the online student learning material and further information in the online tutors’ material (some of this information is available for registered tutors only).

While much of the material in this text is designed to enable you to understand entrepreneurship and small-firm and enterprise development, to apply concepts, to understand case studies and to understand new policy developments, Chapter 13 also provides a guide to preparing *for* entrepreneurship through the coverage of research, design and writing of business plans. Of course, other chapters of the book also provide an opportunity to develop skills and to prepare for entrepreneurship through the discussion of case material and practical examples, but Chapter 13 focuses specifically on sources of information, research methods and the planning process. Throughout the text, we combine a focus on *understanding* with *doing*; a combination of enterprise skills should be developed if you use the review questions, material, case studies and assignments in the book throughout your course. These enterprise skills include problem solving, creative thinking, research and information gathering,

presentation and strategic planning. The value of developing these enterprise skills is that they are *transferable*, whatever career is undertaken. Increasingly employers are seeking graduates with transferable enterprise skills, who can think entrepreneurially, be creative and innovative and communicate new ideas. This is part of the reason for the increased emphasis governments are placing on enterprise education initiatives. We believe that this book will help you to develop those skills and apply them in different problem-solving situations, whether you decide to follow an entrepreneurial career or not. More important, research indicates that most entrepreneurial students do not wish to enter entrepreneurship when they graduate; rather they intend to enter entrepreneurship or self-employment after a period of employment, but having undertaken study of entrepreneurship and small firms they are better prepared for such a change of career.

**Lecturers** will be able to use this text for undergraduate and postgraduate courses in entrepreneurship and small firms. As discussed above, it combines concepts and theory with practical entrepreneurial case studies and examples, although the more detailed in-depth cases have now been placed in the student online resources to create additional room in this edition for the discussion of concepts and content on additional topics, such as the new chapter on ‘Corporate entrepreneurship’ (Chapter 6). It also has policy-related sections, where these are relevant, so that the material is placed in the context of recent developments in entrepreneurship and economic development. As indicated above, additional case material and suggested answers to the review questions are available to students through the student online resources.

For this sixth edition, we have retained the tutor online material, but revised for this edition. This provides additional course lecture slides and material for teaching purposes, which can be used in teaching alongside this text. The online resource for tutors also contains further information on using the case material in the text. Apart from these additional features, lecturers familiar with previous editions should find that we have rewritten the text to take account of new developments, new research and new policy initiatives in field.

**Other users** should find that they are able to use this text for a variety of purposes; for example, for training courses for new entrepreneurs, for an understanding of new developments in entrepreneurship and for an appreciation of concepts applied to practical examples. We hope that this new text will continue to appeal and be of use to a large and varied audience, including potential entrepreneurs, trainers, policy-makers and other users with an interest in entrepreneurship and small firms.

## CHAPTER CONTENT

The first two chapters are foundation chapters, covering entrepreneurship (Chapter 1) and small firms (Chapter 2); they provide the underlying theory and concepts for much of the material presented in the text. Chapter 1 provides a foundation for many of the concepts on entrepreneurship. It examines the three approaches to entrepreneurship: from economic writers, from a psychological perspective and from the socio-behavioural view. Alternative paradigms are also considered. Although the emphasis of the chapter is on different conceptual approaches, underlying evidence to support these approaches is considered with a critical review that emphasizes the importance of entrepreneurial learning and entrepreneurship as a process. Chapter 2 builds upon this foundation by covering the importance of small firms and entrepreneurial activity for European economies, with comparisons of importance in different European countries, including those of eastern Europe. Measures of entrepreneurial activity are considered with a critical examination of the relationship between entrepreneurial activity and economic performance.

Chapter 3, on family businesses, examines the nature of relationships in family businesses, which are now an important part of modern entrepreneurial economies. The chapter also examines specific issues in this area, notably succession planning, with a discussion of general principles applied to specific case studies. Chapter 4 provides an assessment of the importance of diversity of entrepreneurship. The chapter covers the issues of women’s enterprise and ethnic-minority entrepreneurship and examines some of the factors that affect the

participation of women and ethnic minorities in entrepreneurial activity. Diversity is a theme running through much of the material of the text and, therefore, this chapter provides a further important step in understanding the nature and importance of entrepreneurship and small firms.

Chapter 5 addresses the growing phenomenon of social entrepreneurship and the increasingly important ‘third sector’ of the economy which includes social, voluntary and charitable organizations. The chapter reviews their importance and factors in their success and development. New case material on social entrepreneurs has been specially written for this chapter. Chapter 6 is a wholly new chapter on corporate entrepreneurship (CE). This chapter recognises entrepreneurial behaviour as not solely the domain of new start-ups, but of new ventures and development initiatives within large corporations or public-sector organisations. The chapter explores how CE activity relates to classical forms of entrepreneurship and outlines recent work which attempts to quantify certain forms of CE.

The next two chapters, 7 and 8, discuss the nature of the financial environment for entrepreneurs and small firms, primarily focusing on the UK, although with important international comparisons. As with previous editions, the first of these chapters focuses mainly on debt finance – that is, the banks – and the latter on equity finance – that is, formal and informal venture finance. Both chapters make reference to the global financial crisis of autumn 2008; its impact on the commercial banks and on equity providers; on their policies and lending or investing practices.

Chapters 9, 10 and 11 discuss the nature of rapidly changing environments and concepts in entrepreneurship and small firms concerned with innovation, growth and internationalisation. Chapter 9 discusses the relationship between innovation and entrepreneurship, building on and developing many of the concepts that were introduced in Chapter 1. The chapter develops additional concepts in innovation and examines the advantages and disadvantages of small firms in the innovation process. The nature and process of entrepreneurial growth firms is discussed in Chapter 10, with discussion of both theory and evidence on growth firms and new material on barriers to growth. Chapter 11 examines processes of internationalization in small firms, again with discussion of theory and evidence. Chapters 10 and 11 draw out some of the similarities to be found in models of the processes of growth and internationalisation which, of course, are not mutually exclusive.

The last two chapters focus on business start-up and creation. Chapter 12 discusses issues in business start-up, including creativity, opportunity recognition and business development. This chapter provides the basis for the more practical approach of Chapter 13, which focuses on the planning process for business start-up, including the design, writing and implementation of business plans. The material in the final two chapters, especially in Chapter 12, has been revised and updated for the sixth edition.

David Deakins and Mark Freel  
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