CHAPTER 1

Context, Theoretical Perspectives and Definitions

After working through this chapter you should be able to:

- **Understand that defining entrepreneurship is problematic but hinges on an interplay between key personal attributes and appropriate environmental opportunities**
- **Recognize key changes in the macro environment enabling increased entrepreneurial activity**
- **Define small firms and identify their key characteristics and distinguish between entrepreneurs and owner/managers**
- **Identify the contribution of small firms and entrepreneurism to the service and hospitality sectors of economies**

INTRODUCTION

Most of us have an intuitive understanding of what entrepreneurs are due to much publicized activities of characters such as Richard Branson (Virgin), Anita Roddick (Bodyshop), Bill Gates (Microsoft) and others. The international hospitality industry of course has its own icons such as Charles Forte, Conrad Hilton and Ray Croc. Indeed, some of these figures have almost reached superstar status appearing on reality television programs and having cameo roles in movies. Therefore, it would be reasonable to suggest that most of us would link entrepreneurship with a particular personality trait or type and many writers have sought to do so (for example, see Hornaday 1982; Timmons Smollen, and Dingee, 1985; Lessem, 1986; Gibb, 1990; & Wickham, 1998). The likely ones here are 'charismatic' and 'extrovert'. However, these characteristics are too simplistic to provide an adequate description of what constitutes the entrepreneur. Definitions of entrepreneurship emanate from several disciplines including the 'great person' school; classical and neoclassical economics; psychology; sociology; and management

(Yeung, 2002). Other researchers have sought to explain entrepreneurship by linking it with national culture (for example see, Shane, 1995; McGrath, MacMillan, and Scheinberg, 1992; and Mueller and Thomas, 2001). Others including Meredith, Nelson *et al.* (1982) and Zimmerer and Scarborough (2005) have focused on the entrepreneurial environment. Therefore understandably, one single universal definition of entrepreneurship is problematic given its multidisciplinary nature.

Many writers agree with Kirby (2003) and Chell, Haworth & Brealey (1991) who state respectively that:

> '*there is no agreed definition of...what constitutes... entrepreneurship*' *(p. 10).*
> '*there is still no standard, universally accepted definition of entrepreneurship*' *(p. 1).*

Baumol (1993) goes further suggesting that:

> ''*Any attempt at rigid definition of the term entrepreneur...[should] be avoided...because whatever attributes are selected, they are sure to prove excessively restrictive, ruling out some feature, activity, or accomplishment of this inherently subtle and elusive character*'' *(p. 7).*

However, if we stay with the idea of popular media icons, especially fictitious ones such as Dell Boy Trotter and Arthur Daley from UK television programs 'Only Fools and Horses' and 'Minder' in the 1990s it becomes fairly obvious that any definition must necessarily include elements of both the individual and the environmental opportunities present.

Excerpt from 'Only Fools and Horses' BBCTV, UK, 1983

1. Del Boy has just sold a number of broken lawnmower engines to his brother Rodney and business partner Mickey Pearce via an auction. Both Rodney and Mickey do not, as yet, realize that del is the vendor:

Del: I never thought I'd get rid of 'em Rodney but you know me, 'He who dares wins'. Actually, I've made a tidy little profit.
Rodney: What are we gonna do with 'em.
Del: Why don't you do what I did. Find yourself a couple of right little plonkers (idiots) with cash on the hip.

Up until the end of the last century many definitions failed to consider the key role played by the environment upon entrepreneurs and entrepreneurial success and vice versa. Definitions tended to fall into two exclusive categories, one featured personality traits and behavioural characteristics of (for example, see Hornaday 1982; Wickham, 1998). However, others looked at the environment for situations where entrepreneurs were likely to develop and thrive (see Meredith, Nelson and Neck 1982; Zimmerer and Scarborough, 2005). Essentially, the area of entrepreneurship necessarily involves more than just a simple enquiry of who the person is and what they do or the environment. The phenomenon is a complex amalgam of both the individual and opportunity. Common sense suggests that any definition of entrepreneurship should include both dimensions by considering what Shane (2003) refers to as the individual–opportunity nexus. Given the above, it would seem reasonable to define the entrepreneur as:

> '. . .*one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling necessary resources to capitalize on them*' *(Zimmerer and Scarborough, 2005, p. 3).*

Just as entrepreneurs are difficult to define so too is identifying a typical one as they come in all shapes and sizes from different educational, cultural and industrial backgrounds. However, using data from over 35 countries, Minniti, Bygrace and Autio (2006) help us to provide a composite picture of the entrepreneur. He or she is likely to:

- Be based in a middle income country;
- Survive in high income countries;
- Be opportunity-driven as success if necessity-driven is less likely;
- Not offer new products or services;
- Own businesses likely to have limited or no growth potential;
- Be between 25 and 34 years (early stage entrepreneurs);
- Be a man;
- Have post school or graduate qualifications; and
- Be more likely to have confidence in own skills, know other entrepreneurs, be more alert to unexploited opportunities and less likely to let fear of failure prevent them from starting new business.

Adapted from: Minniti *et al.* (2006, pp. 10–11).

Key point 1.1

Defining entrepreneurs is difficult as they are a composite of variables. These include personal traits and characteristics and environmental enablers. Some argue that entrepreneurial success stands or falls by the right person being in the right place at the right time.

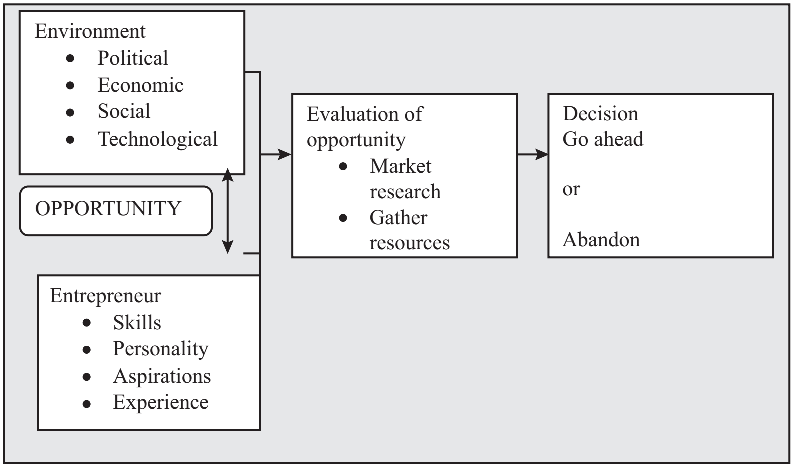

FIGURE 1.1 *Entrepreneurial process of creating a new business venture. Adapted from: Schaper and Volery (2004).*

Using our above definition and type, entrepreneurs and entrepreneurship may now be understood as a certain individual or individuals ('copreneurs') engaged in the process of creating a new business venture as shown in Figure 1.1.

A key element here is the entrepreneur as the person who identifies an opportunity. The propensity for being able to spot a gap in the market is a difficult and complex area to describe. So too is identifying a sustainable competitive advantage setting the idea apart from the competition. Several authors have identified various specific traits (Hornaday, 1982; Timmons Smollen, and Dingee, 1985; Lessem, 1986; Gibb 1990; Wickham, 1998) believed to play a role in this regard, with locus of control, need for achievement and risk-taking being key. However, traits alone do not adequately explain entrepreneurial behaviour. Other elements such as aspirations, experience and cultural background undoubtedly make a contribution. Moreover, responding appropriately to the environment is also a fundamental enabler of new venture formation. The political, economic, social and technological landscape must therefore also be favourable for entrepreneurship to flourish.

Reflective practice

1. Can you think of a famous entrepreneur or someone you know would be recognized as an entrepreneur? To what do you attribute their success, luck, skill, talent, propensity for risk-taking, leadership ability or a combination of them?

Once an opportunity is identified, the potential venture must be assessed by various means at the entrepreneur's disposal. There is no standard way of doing this and the complexity and extent of feasibility studies, business plans, marketing plans and so on will vary depending on the idea and the market. A decision has then to be taken whether to continue with the notion or to abandon it. Typically, decisions to pursue (or not) an entrepreneurial idea are taken within the context of either a 'push' or 'pull' environment. The former is where the individual has been made redundant or is unhappy with their current working conditions. The latter pull factors concern market attractiveness such as opportunity to increase personal wealth, personal development and status. Once all of these variables have been assessed, compared and scrutinized, a final decision to continue with the venture can be made. This is a crucial phase in the process and Figure 1.1 suggests that it is a rational one. However in practice, decisions to exploit an opportunity through venture creation are often a complete mystery! In other words, they appear to be illogical, especially if the rate of small business failures is anything to go by.[1]

Key point 1.2

Typically, entrepreneurial activity is initiated by push or pull factors. Push factors include, being made redundant, low level of income or general unhappiness with current employment. Pull factors include the chance of increasing personal wealth, chance to be own boss and status.

There are a number of reasons for business failure but most fall into the categories of managerial incompetence and lack of experience (Kirby, 2003). Another is that often, budding entrepreneurs become emotionally attached to their business ideas and, despite the odds, will pursue them even though objective evidence suggesting the contrary. This is particularly the case in the hospitality industry where individuals consistently fall in love with the idea of opening their own restaurant or public house or opt to become self-employed for non-economic reasons (see Thomas, Friel, Jameson, and Parsons, 1997). For example, there seems to be a notion that running a restaurant or bar is not really serious work at all. Besides, fraternizing and socializing with customers cannot be that difficult or taxing can it? Well actually, it can. In practice, owners will be working incredibly long hours

[1] Although difficult to be accurate, Kirby (2003) estimates small business failures within the first year of trading at 38 per cent and by the end of year two at 57 per cent. Similar estimates are made by others including Zimmerer and Scarborough (1996).

TABLE 1.1 Entrepreneurs: pros and cons

Pros	Cons
Independence and relative freedom from constraints including decision-making	Change, risk, uncertainty of income and the requirement to make many decisions in new 'unknown' areas
Able to use many skills, abilities and talents	Many skills and abilities required, complete responsibility
Accountable to oneself and control over own destiny	Lower quality of life in early stages with notable potential or failure
Status, achievement and chance to reach one's full potential	Long hours and 'hard work'
Potential for greater financial rewards	

Adapted from: Zimmerer and Scarborough (1996) and Coulter (2001).

occupying many different roles ranging from bar tender, bookkeeper, receptionist, room attendant, chef, wait person whilst at all times maintaining an air of 'mein host'. Indeed, several studies have shown that a lengthy working hours contributes to early business failure (for example, see William and Collins, 1995). Therefore before taking the 'plunge', entrepreneurs should always remember not to 'fall in love' with the idea of owning and running their own business.

Reflective practice

1. Give some examples of business entrepreneurs who despite prevailing economic conditions or against advice of others continued with their dream; were they successful or unsuccessful?

There are undoubtedly benefits of being an entrepreneur but there are also a number of challenges; Table 1.1 provides a summary.

HISTORY, GOVERNMENT AND THE ECONOMY

Entrepreneurship is not a modern concept and the term is said to have originated with the 18th century economist Richard Cantillon who used it to describe someone who bore risk, made plans, organized and owned factors of production–land, labour and capital (Coulter, 2001). The term entrepreneur evolved over the next two centuries and with the advent of the industrial revolution it became viewed as something separate from management with similarities to what is currently considered a venture capitalist or 'business angel'. More recently, writers such as Joseph Schumpter and Peter Drucker added other dimensions to the term. For example, Schumpeter considered the entrepreneur as one engaged in 'creative destruction', that is, one who replaces inefficient and ineffective approaches with better and improved ones. For Schumpeter, innovation was a key element of entrepreneurship. A complimentary addition to the term was that of Peter Drucker who introduced the notion of spotting opportunity and acting upon it.

Excerpt from 'Only Fools and Horses' BBCTV, UK, 1983

2. Del Boy is explaining to his grandad what a good week's trading he's enjoyed:

Del:I've had a good week as it goes. I've sold everything including those multicoloured woolen tea cosies I bought.
Grandad: Who on earth want woolen tea cozies in this day and age?
Del: No, no, no. I took them over to Mrs Murphy to stitch up all the holes and then flogged (sold) 'em down at the youth centre as beanie hats.

Until fairly recently international and domestic markets were relatively structured and insular with a legal framework which arguably discouraged entrepreneurial activity. Large companies and corporations with 'traditional' vertical higherarchies and centralized decision-making processes benefited from these turgid conditions. At the same time individuals enjoyed job security and usually had only one career in their working lifetime. In the 21st century this is no longer the case, with the gradual rise in economic importance and employment of the international service sector at the expense of manufacturing (see Sweet, 2001; Economist intelligence Unit, 200). Additionally, there are at least two generations of people (X – born 1965–1976 and Y – born 1977–1994) who know nothing other than employment flexibility, multi-careers and job changes. In the new globalized business environment many large corporations have downsized, 'outsourced' and implemented sweeping changes resulting in massive redundancies and further job insecurities. In part, this has resulted in an increased pool of talented and creative people willing to engage in entrepreneurial activity.

Key point 1.3
Global entrepreneurial activity is now higher than at any other time in recent history.

Government has a key role to play in creating an environment conducive to entrepreneurship. Many have recognized the key contribution of the small business sector to the economy and have liberalized the marketplace aggressively implementing 'entrepreneurship friendly' policies such as removal of barriers to competition and other trade restrictions. The prospect of starting one's own business is therefore not as daunting as it used to be. Literally hundreds of government agencies and non-profit organizations have been established to provide free expertise, research grants and advice to nascent entrepreneurs and small business owners. A small international sample is shown below:

UK Government Department of Trade and Industry – Small Business Service;

Australian Government – AusIndustry – Small Business Incubator Program, Small Business Advisor Service;

US Government – Small Business Administration Agency;

Government of India – Ministry of Small Scale Industries – National Institute for Entrepreneurship and Small Business Development;

The Asia Foundation – Indonesia;

New Zealand Government – National Economic Development Agency – New Zealand Trade and Enterprise;

Jamaican Government – Jamaica Business Development Center; and

Brazilian Government – National Deliberative Council – Brazilian Micro and Small Business Support Service.

Such initiatives have helped a booming small to medium-sized firms sector create more wealth than firms at any time previously (Burns, 2001). The UK's DTI (2006) estimate the number of SMEs in 2005 to number 59 000 (1.4 per cent) more than at the start of 2004. They note, '. . . this is the eighth successive year that companies have increased in number' (p. 3). Furthermore, small and medium-sized enterprises (SMEs) together accounted for more than half of all employment (58.7 per cent or 13 million) and turnover (51.1 per cent or £1300 billion.). Small enterprises alone (0–49 employees) accounted for 46.8 per cent of employment and 36.4 per cent of turnover.

A similar picture emerges elsewhere, for example, SMEs comprise around 90–95 per cent of all firms in the European Community and the USA with an increasing number of new firms emerging year after year (Burns, 2001, p. 3). According to the Global Entrepreneurship Monitor 2005 Executive Report, other countries having notable increasing rates of entrepreneurial activity include Venezuela, Thailand, New Zealand, Jamaica, China, Brazil, Australia and the USA where a range of between 25 (Venezuela) to 11 (USA) per cent of the adult population is either a new business owner or in an early stage of entrepreneurial activity (Minniti *et al.*, 2006, p. 18). In short, there has been a significant global movement toward self-employment through individual choice and (probable) government-driven entrepreneurship-friendly macro–conditions.

> **Reflective practice**
> Identify any local government (and other agency) support structures and systems available to entrepreneurs in your region. How easy are they to access.

What are Small Firms?

Generally small or small to medium-sized (SME) firms are used as a proxy for entrepreneurial activity but what exactly are they? Many definitions exist because of their global diversity and characteristics. One UK-based definition supplied by the Bolton Committee Report (Bolton, 1971) considers them to be independent, managed by owners or part-owners and having a small market share. The report also recognizes size in terms of relativity. For example, a firm could be small in one sector where the market is large with many competitors; whereas a business of similar size could be deemed large in another sector with fewer and smaller firms within it. In North America, the Small Business Act states that a small business is independently owned and operated and not dominant in its field of operation but recognizes that the definition will vary from industry to industry to reflect industry differences accurately (http://www.sba.gov/services/contractingopportunities/sizestandardstopics/size/index.html, 2007). However, these contributions are not particularly helpful when making comparisons international or otherwise.

More definitive help is provided by the UK Companies Act of 1985. A company is said to be 'small' if it either has a turnover of not more than £5.6 million; a balance sheet total of not more than £2.8 million; and not more than 50 employees. Medium-sized companies similarly must have a turnover of not more than £22.8 million; a balance sheet total of not more than £11.4 million; not more than 250 employees.[2] Similar 'financial' approaches are evident from the USA, Australia and the EU but suffer from a problem of obsolescence due to national and international economic fluctuations of interest rates and inflation for example. Furthermore, despite a European Commission directive for a single definition of SMEs from 2005, annual adjustments still have to be made to financial thresholds; these changes are not necessary for numbers employed (http://www.sbs.gov.uk/sbsgov/action/layer?r.l1=7000000229&topicId=7000000237&r.l2=7000000243&r.s=tl, 2007).

[2] Must satisfy at least two of these three criteria to qualify for small or small to medium-sized form status.

TABLE 1.2 A comparison of international definitions of firm size by employees

UK	Micro: up to 9 employees Small: up to 49 employees Medium: up to 249 employees
European Union	Small: up to 50 employees Medium: up to 250 employees
Australia	Micro: fewer than 5 people, including non-employing businesses Small: 5 or more employees, but less than 20 Medium: up to 200 employees
USA	Small: up to 100 Medium: up to 500

Sources: *Department of Trade and Industry,Trewin, D. (2002)* and http://encyclopedia.thefreedictionary.com/small+business, retrieved July 2008.

It is also the case that whilst similar, in practice, working definitions of small firms occupy a range driven by the particular aims and objectives of the event, for example, a research study, census, industry sponsored event and so on. Therefore for practical statistical and international comparative purposes, the number of employees working in a firm is probably the most useful measure of size and some examples are shown in Table 1.2.

Size however defined, is not the only thing that distinguishes small firms from their larger counterparts. There are a number of other key characteristics including the personality and behaviour of the owner/entrepreneur. This individual will make most, if not all, business decisions including those directly effecting employees. Indeed, the small firm can easily be understood as an extension of the entrepreneur with all of their decision-making idiosyncrasies rolled into one! The contact between employer and workers is likely to take on more of a personalized tone as there are fewer employees and they spend much of their time working alongside their employer. Furthermore, small organizations have less well-defined guidelines for roles, responsibilities and relationships; they are in effect an extension of the entrepreneur's personality and attitudes.

Reflective practice

How useful is using number of employees to define firms as small medium or large? Is this a global standard measure of a firm's size?

Other issues that small businesses typically have to contend with include a shortage of funds. Internationally, most small businesses are still financed 'informally' by personal savings and donations from family and friends.

Fewer than 0.01 per cent of nascent entrepreneurs launch new ventures with formal venture capital or business angel investments despite the amount of attention they receive by policy makers (Minniti *et al.*, 2006, p. 55).[3] However, that is not to underplay the emergence of 'microfinancing' and its role amongst the 'working poor'. Essentially, this is where social innovators provide small loans to entrepreneurs without the need for collateral. Since the inception of microfinance in the 1970s, it has become one of the most sustainable ways of fighting global poverty. According to Minniti *et al.* (2006) in 2005, 'The International Year of Microcredit, around 40 per cent of the world's poorest people were being reached by the initiative.

Lack of finance means that entrepreneurs generally operate within a short timeframe and have to make a healthy turnaround (although not always a profit) within a matter of months rather than years. This is particularly so in the seasonal seaside sector of the hospitality industry where operators have to earn a sufficient income in a short period to remain solvent during the fallow non-trading period in any 1 year. This puts an enormous burden on the entrepreneur and most decisions are short-term and directly related to this constraint. Long-term strategies are therefore inappropriate for small firms apart from those with key potential financiers such as banks and other similar institutions. Small firms also tend to operate within a narrow market so diversification to spread risk is not an option. For example, a small seasonal hotel may have a contract with a coach operator for say, weekly senior's holidays; it is likely that all rooms will be taken. If the contract is cancelled at short notice the loss of this one customer would have a significant impact on the business. A larger national hotel chain would not be so vulnerable as it would have alternative markets on which to draw. According to Burns (2001), characteristics which really define small firms can be summarized in Table 1.3.

Entrepreneurs and Owner-managers

So what is the difference between entrepreneurs and owner-managers? This is a much debated issue. In one sense, there may be no difference if the entrepreneur owns and manages the firm as a Sole Trader. On the other hand, managers do not always own the enterprise; it may be a smaller unit of a huge conglomerate. Would this necessarily mean that the manager fails to qualify for entrepreneurship status? The answer is 'possibly', depending on how much control the manager has over the firm and whether they display certain

[3] The United States continues to dominate venture capital investment in high-tech companies. For example, six times as much classic venture capital was invested in the USA as in all the European nations combined.

TABLE 1.3 Characteristics of small firms

One or two owners often family
Financed by owners, relatives and friends
Limited and uncertain markets
Low levels of new profit
Inability to influence prices
Uncertain entrepreneurial aspirations and motives (lifestyle firm or growth firm)[a]
Short-run decision making
Short seasonal business cycle (for most sectors of the hospitality industry)
One location

Adapted from: Burns (2001) and Shaper and Volery (2004).

[a] *Lifestyle firms are those set up primarily to provide 'adequate' income with no growth aspirations. Growth firms on the other hand are set up with the aim of prospering and growing.*

entrepreneurial characteristics like innovation and risk (to be discussed and developed in Chapter 3). Indeed, others have addressed this very issue by introducing the term 'intrapreneur' into the nonclemature. This simply means someone behaving as an entrepreneur within a broader framework of a large company at the behest of the employer. However, even this term may not necessarily apply to the manager.

Burns (2001) provides a useful summary of this conundrum indicating that irrespective of ownership, owner managers and managers may both qualify for the title entrepreneur. This, with the additional category of intrapreneur is shown in Figure 1.2.

TABLE 1.4 Differences between entrepreneurship and owner-managers

	Entrepreneurship	**Owner–management**
Definition of the field	Process where an individual discovers, evaluates and exploits opportunities independently	Administration of a small independent business venture
Firm size	Large, medium or small	Small
Degree of risk	Variable	Lower
Number of people involved in the business	Small to large number	Small
Economic sector	Private, government and not-for-profit	Private sector
Growth focus	High	Variable
Key attributes of individual	High need for: achievement; internal locus of control; creativity and innovation; growth	Moderate need for Achievement; good organizational skills to manage efficiently; little innovation; moderate growth

Adapted from:Holt (1992, p. 11).

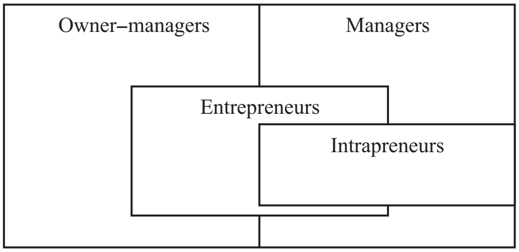

FIGURE 1.2 *Managers, owner–managers and entrepreneurs/intrapreneurs.*
Adapted from: Burns (2001, p. 7).

Holt (1992) is more prescriptive and his position is summarized in Table 1.4.

THE ECONOMY AND ENTREPRENEURSHIP

Whilst governments have long recognized the importance of entrepreneurial activity on the broader economy, the exact relationship between them is not simply cause and effect. For example, different levels of economic development set the environment where entrepreneurs make decisions. These decisions pre-determine the type and quantity and capacity for entrepreneurship in any one country. In other words, the causal link between entrepreneurial activity and economic growth and the role of small firms in determining a country's competitiveness and productivity is equivocal. However, countries having similar per capita GDP often show similar levels of entrepreneurial activity (Acs, Arenius, Hay, and Minniti, 2005). There is little doubt that the entrepreneurial sector provides employment opportunities and scope for the creation of new markets at low levels of per capita income but as this increases, larger and established organizations tend to satisfy the demand of growing markets. As large companies become more active, there is usually a reduction in the number of newer smaller ones. Interestingly, as per capita GDP increases, the level of entrepreneurial activity increases again as individuals have more personal resources on which to set up new businesses and establish a competitive advantage. In short, entrepreneurial activity and economic development have something of an 'ebb and flow' relationship depending on a number of prevailing pre-existing circumstances. Despite this inexact association, Minniti *et al.* (2006) characterize the relationship between entrepreneurship and aggregate economic activity as shown in Figure 1.3.

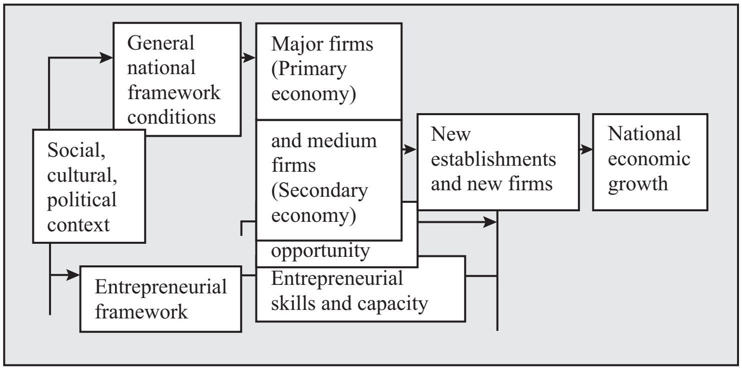

FIGURE 1.3 *The global entrepreneurship monitor conceptual model.*
Source: Minniti et al. (2006).

These authors consider entrepreneurship to be vital for economic growth as small firms innovate, fill market niches, increase competition and promote economic efficiency.

Reflective Practice

Could you be an entrepreneur? Answer the following questions to find out:

1. When you look at an ink blot how many things can you see?
   Just one
   More than just one

The inkblot or Rorschach test targets a tolerance for ambiguity which is thought to be a good indicator of an entrepreneur.

2. You are seated in the front row of a theatre and the performer beckons you on stage to help with the act. Would you:
   Run out crying?
   Accept the invitation with glee?

Entrepreneurs must have an ability to think on their feet and to sell themselves and their business to everyone.

3. You are considering taking a cycling holiday, which would you prefer?
   A mountain bike excursion over rugged terrain
   Riding on a smooth road surface

In business, there is no such thing as a smooth ride. Success is very often littered with hazards, potholes and frustrations.

Can you take no for an answer?
   Yes
   No

Banks, investors, venture capitalists and other financiers may turn your proposals down many times. Rejection should motivate you to try harder.

You are thinking of buying a new home. Do you:

Purchase one that's already built

Find a vacant plot of land and build a new one?

Entrepreneurs are builders and architects of their own businesses. They have to identify an opportunity, establish a robust and appropriate structure whilst staying within budget. Some may literally opt for property development as their entrepreneurial business!

Your neighbour's cute little kids knock on your front door trying to raise money for their school by selling raffle tickets. Do you:

Buy some

Buy none

If you can say 'no', so much the better. Running your own business often means saying 'no' as well as 'yes' to family, friends, relatives and others.

Can you watch and absorb a news programme, edit presentation, listen to music:

Yes

No

Start-up firms do not have the luxury of division of labour. You will have to occupy many different roles including that of CEO, marketing manager, HR manager, technical roles and often at the same time.

You've made plans for taking a holiday. Just prior to leaving, the plumbing springs a leak and the electricity blows a fuse. Do you:

Get really angry

Take it in your stride, postpone the holiday and fix the problems

Entrepreneurs must be flexible and deal with problems as they arise.

Entrepreneurial aptitude:

If you answered all eight correctly you fall into the category of individuals having an entrepreneurial aptitude. If you answered four correctly, start a part-time entrepreneurial venture or find a 'co-preneur' to help. Fewer than four answered correctly; don't give up your day job

Adapted from:Coulter (2001).

SERVICES AND HOSPITALITY

The service sector of many economies has a high proportion of small to medium-sized entrepreneurial firms. Entrepreneurial and small business 'activity' in Minniti *et al*'s, (2006) 'four business' sector comparison reveals that ''consumer-oriented'' (p. 31) firms dominate the global economy.[4] In the USA for example, the service sector is responsible for 92 per cent of all jobs and 85 per cent of the gross domestic product (Zimmerer and Scarborough, 2005, p. 12).

[4] ''Consumer-oriented: where the primary customer is a physical person (e.g. retail, restaurants and bars, lodging. . .and recreation'' (Minniti *et al.*, 2006, p. 30).

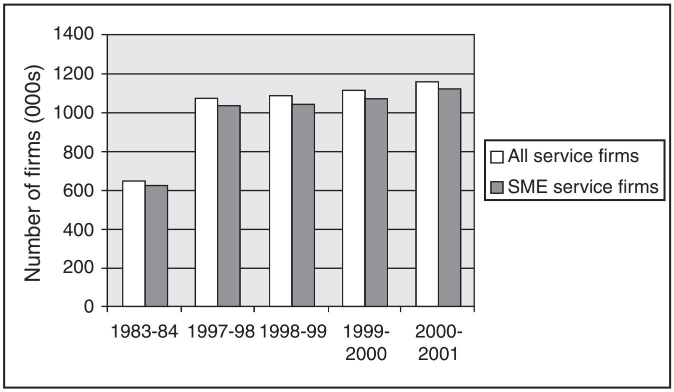

FIGURE 1.4 *All service and small to medium-sized firms in Australia 1983/4–2000/1. Adapted from: Small Business in Australia, 2001, ABS Catalogue No. 1321.0 (2002) number of businesses and persons employed in the private sector by industry division, Chapter 3.*

This is partially explained with recent advances in technology via the laptop computer, printers, faxes, voice mail and so on. However, hi-tec services industries are not the only ones dominated by small firms. More 'traditional' areas such as hospitality and tourism have always been characterized by small firms (Haber, 2005, p. 582). Many commentators suggest that this is due to relatively low barriers to entry including modest start up costs, marginal economies of scale, chance to establish small 'lifestyle' businesses and nature of the hospitality service product. Figure 1.4 shows a comparison between all service and small to medium-sized firms in Australia. Figure 1.5 compares the number of all firms and SMEs in the accommodation, café and restaurant sector.

In Australia, SMEs have consistently dominated the services sector with around 96 per cent of all firms falling into the small to medium-sized category. From 1983–1984 to 1997–1998 SMEs showed significant growth, with more moderate but consistent growth thereafter.

Likewise, the Australian accommodation, cafés and restaurants sector is dominated by SMEs with approximately 89 per cent of all firms falling into this category. Additionally, the number of SMEs increased dramatically between 1983–1984 and 1997–1998 with a more uniform growth from 1997–1998 to 2000–2001.

A similar scenario exists in many other countries, for example, in the UK 98.5 per cent of all hotels and restaurants (category 55) employ less than 50 people (www.sbs.gov.uk/SBS_Gov_files/researchandstats/SMEStatsUKAndRegions2005.xls 'UK Whole Economy'!A1, 2007). In the USA, the Accommodation and Food Services sector is dominated by small businesses with

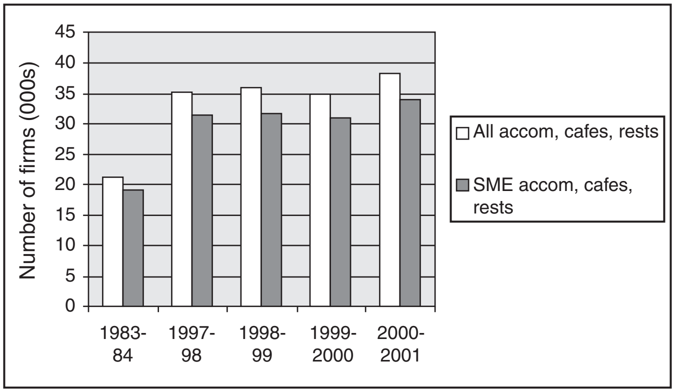

FIGURE 1.5 *Comparison between all firms and SMEs in the accommodation, cafes and restaurants sector in Australia 1984–2000/1.*
Adapted from: Small Business in Australia, 2001, ABS Catalogue No. 1321.0 (2002) number of businesses and persons employed in the private sector by industry division, Chapter 3.

approximately 75 per cent of all firms employing fewer than 50 people (US Census Bureau, 2005).

SUMMARY

After some discussion, entrepreneurs were identified as being ‘atypical’ that is not easily defined as they appear in a number of guises having different backgrounds upbringings and so on. After a brief review of key historical developments and definitive insights, it was noted that successful entrepreneurs must be able to spot an opportunity and environmental conditions need to be sympathetic to any innovations advanced. Furthermore, the entrepreneurial process was outlined from an initial ‘opportunity spotting’ to the eventual decision to either pursue the idea or to let it be. The final stage of the process was advanced as logical ‘decision-making’ Unfortunately, this stage of the model is arguably the most difficult to understand as many decisions to proceed with an entrepreneurial idea have little relevance with prevailing economic or market conditions. This is particularly the case in the hospitality industry where there is a perennial preconceived notion that running a small restaurant or hotel is at best risk-free and at worst physically undemanding.

Whilst there is general agreement that entrepreneurs play a pivotal role in broader economic development, the exact relationship between them was described as a complex ‘ebb and flow’, with one not always being able to predict the other. An overview of economic enablers revealed the pivotal role of contemporary business practice in setting appropriate conditions for entrepreneurial activity with registered small businesses more prevalent globally now than at any other time. Government agencies and not for profit organizations now provide a myriad of initiatives, support and advice for nascent entrepreneurs including information and access to venture capitalists; although this is form of finance is six times more prevalent in the USA than the rest of the world combined.

Small firms were described and defined in statistical terms and through characteristics specific to small organizations including, limited capital raising capacity, frenetic activity during busy trading periods (typically seasonal in the hospitality industry), and a lack of formal rules, regulations and procedures. Entrepreneurs and small business owner–managers were also discussed with these terms not always being mutually exclusive.

Finally, the service sectors of several developed countries were overviewed showing the clear dominance of small and SMEs. A similar picture was also revealed for the hospitality and restaurant industry where around 75–99 per cent of all firms were identified as small or small to medium sized.

Reflective practice

- Define entrepreneurship.
- Discuss the notion that entrepreneurs are neither made nor born.
- What role does the government play in enabling entrepreneurial activity?
- What is the relationship between economic development and entrepreneurial activity?
- What are the similarities and differences between entrepreneurs and owner managers?
- How important are entrepreneurs in the tourism and hospitality sectors of economies?

CASE: The Windsor Hotel Ltd.

In the late 1950s, a young couple worked and met at the Queen's hotel in Birmingham, UK. The Queen's was only one of many British Transport hotels dotted around the country at that time built originally to accommodate rail passengers using the network. In the early 1960s, this along with many other sister hotels was sold or demolished. Regrettably, David and Greta were forced to look elsewhere for work. In those days, job opportunities were in abundance especially in industrial Birmingham and so both found jobs soon after being made redundant from the Queen's hotel. Ideally, they would both have liked to remain in the hospitality industry but they now had a young son and so opted for factory work as it was much better paid.

Over the next couple of years, Greta's family decided they would like to move to Great Yarmouth where they had enjoyed many happy holidays. Greta's parents were coming up to retirement age and thought the change of surroundings would be appropriate at their time of life. After much family discussion, David and Greta decided to follow them but for reasons quite different to her parents. Great Yarmouth in the 1950s was booming seaside resort much like others including Blackpool, Margate and Bournemouth. These were the days when hospitality firms needed very little (if any) promotion due to the excessive demand from the domestic mass-tourist market. Having a hospitality industry background and experience both David and Greta had an inkling that setting up their own small guest house business might just be viable. On the basis of this hunch, and that Greta wanted to be near to her parents in their declining years, they sold their property in Birmingham and bought an eight-bedroom guest house a couple of streets back from the sea front esplanade.

To their delight, the guest house was enormously successful although David and Greta had to do most of the work themselves. Recognising the ‘healthy’ state of the market a couple of years later in 1966, they bought the house next door and converted both into one 16 bedroom guest house. Over the next 10 years David and Greta became well-known in the town as they joined their local Rotary and Lions clubs, attended many employer association meetings and networking events. Whilst their business continued building on its initial success there was one increasing threat on their business horizon, that of the cheap Spanish continental package holiday. Recognising this, they set about undertaking some elementary business research to see what could be done to counter this challenge. In short, David and Greta identified a market that they were not currently satisfying, that of a higher spending quality conscious segment; not at all like what the traders in great Yarmouth referred to as ‘the bucket and spade brigade’. Worryingly, the image of their existing guest house appealed only to the extant lower income tourists. They decided that the purchase of a new upmarket hotel was probably the only answer for continued success into the future. However, even the sale of their business, accrued savings and a bank loan would not be enough to secure a business property of the type they had envisaged. For the next few years, they thought long and hard about the issue but resolved that they would never be able to realize their dreams. Instead they, together with other small guest house owners, debated and discussed what Great Yarmouth as a town could do to address the falling tourism demand.

At one particular Lion’s club meeting, David was approached by one of the town’s leading hotel owners. In fact, Jeremy Ingold owned his own 60 bedroom four star hotel and was a partner in the Windsor hotel, the largest privately owned hotel in Great Yarmouth. In brief, he and the other partners had seen the Windsor’s performance decline uniformly since they had bought it from Trust House Forte some five years earlier. Their strategy was to take a ‘hands off’ approach to running the Windsor by employing a manger to take care of operations. After a five year period and a succession of unsuccessful managers, the Windsor was in danger of failing. Jeremy explained the situation to David and, based on the reputation of the guest house, invited him and Greta to become full salaried managers of the hotel.

The Windsor was just like the hotel that David and Greta had identified a whilst earlier. It had three stars (Royal Automobile Club), 80 bedrooms, four bars, a huge ballroom and several function suites. Excitedly, David discussed the proposal with his wife. Despite the misgivings of their current situation, Greta was far more cautious about the idea, pointing out that they would no longer be their own boss nor have the security of their own small firm. ‘‘Why would you want to go back to earning a wage?’’ she said. David had to agree and admitted that his emotions had got the better of him but the proposition started a long process of deliberation and extended discussion with Jeremy Ingold and the other partners to see whether their idea could be amended to David and Greta's advantage. One potentially key point strategically was that all partners were in their mid fifties and upwards. Greta pointed out that they would soon be retiring and would need to make some significant decisions about the Windsor and their role as partners. In other words, they would soon be considering appropriate exit strategy. ''If they are taking this hotel seriously, they must also recognize that any manager must be fully committed to the business. I think we should negotiate first an equal partnership deal and second speak about their impending retirements, after all it cannot be more than 10 years away at most.'' said Greta. David and Greta agreed and decided to propose a clause whereby they would have an option to buy out the other partners in due course. Over the next couple of months a deal was struck including the equal partnership and buy out options.

During their first summer season at the Windsor, they befriended a bank manager who stayed at the hotel for three months during the first year of trading. He was to manage the local branch and stay at the hotel whilst searching for a house and moving his family to Great Yarmouth. David and Greta spoke to their new friend about their plans and that they intended to buy out their partners the following year. In short, the bank manager arranged for an 'unsecured loan'[5] of a specific amount for David and Greta to buy the hotel. Fortunately, their partners were not unreasonable and were happy to take a modest sum each for their portion of the Windsor.

David and Greta owned and operated the Windsor successfully for just over 25 years. By 2000, the domestic tourism market in great Yarmouth had declined to such an extent that even the larger three and four star hotels had become effected. They had little option but to sell the business but to whom? Clearly it would not be to anyone or any company that relied on domestic tourism income alone. David and Greta decided to advertise the sale of their business via a few selective media ensuring a wide range of potential buyers. After 2 years and a number of unsatisfactory offers, they accepted a modest proposal from a Chinese company already owning a number of other tourism-related businesses including travel agents and tour operations. For David and Greta this was a stroke of fortune as the purchase represented a form of vertical integration for the Chinese buyers. Thus they would not be relying on the ever dwindling domestic tourist. Currently, the Windor hotel remains successful but the focus has moved toward the international market, specifically Chinese.

1. Discuss David and Greta's ability to spot an opportunity
2. How ambitious are this couple?
3. Can you identify some key entrepreneurial characteristics for David and Greta? Are they the same for each person?
4. How important was 'fate' in David and Greta's entrepreneurial career?
5. How important are exit strategies in entrepreneurship?
6. Comment on whether David and Greta's businesses were 'lifestyle' or 'growth'.

[5] A loan where investors (in this case the bank) do not require the security of an existing asset; usually only for small amounts.